UPSHIFT

VETERAN RESOURCES INC. 2003 ANNUAL REPORT

Veteran Resources Inc. is a Calgary based junior oil and gas exploration and development company with production operations in Alberta, British Columbia and Ontario. Veteran's production is weighted 47 percent to natural gas and 53 percent to crude oil. The Company applies its technical and operational skills to find and develop petroleum reserves in selected core areas that have been identified as having significant potential. Veteran's shares are traded on the Toronto Stock Exchange under the symbol VTI.

ANNUAL GENERAL MEETING: The Annual General Meeting of Shareholders of Veteran Resources Inc. will be held in the conference room, second floor, Bantrel Tower, 700 – 6th Avenue SW, Calgary, Alberta at 9:00 a.m. on May 27, 2004.

Caution to Reader: This report may contain forward-looking statements and the reader is cautioned not to place undue reliance on these statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although Veteran believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. These statements are based on current expectations that involve a number of risks and uncertainties including but not limited to: the risks associated with the oil and gas industry (e.g. operational risks in development, exploration, and production; the uncertainty of reserve estimations; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety, and environmental risks), commodity price and exchange rate fluctuations and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Additional information on these and other factors that could affect Veteran's operations or financial results are included in Veteran's reports on file with regulatory authorities. The Company cautions that events or circumstances could cause actual results to differ materially from those projected.

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HIGHLIGHTS

Year ended December 31		2003		2002
FINANCIAL				
Oil and natural gas revenues	$	**4,861,871**	$	2,187,125
Cash flow from operations[1]	$	**2,003,157**	$	619,926
Per common share – basic	$	**0.05**	$	0.02
Per common share – diluted	$	**0.04**	$	0.02
Net earnings	$	**289,853**	$	1,507
Per common share – basic	$	**0.01**	$	–
Per common share – diluted	$	**0.01**	$	–
Capital expenditures – Capital assets, net	$	**7,196,690**	$	4,660,526
– American Leduc acquisition	$	**7,010,330**	$	–
Working capital deficiency, including bank loan	$	**2,893,475**	$	3,841,583
Shareholders' equity	$	**21,900,820**	$	7,643,536
Common shares outstanding December 31				
Basic		**57,852,226**		32,540,920
Weighted average – basic		**43,885,304**		28,908,510
Diluted		**67,705,869**		35,723,015
OPERATIONS				
Average daily sales				
Natural gas (mcf per day)		**1,122**		678
Crude oil (bbl per day)		**124**		64
Natural gas liquids (bbl per day)		**18**		16
Barrels of oil equivalent (boe per day)		**329**		193
Average sales price				
Natural gas – net of transportation (per mcf)	$	**6.69**	$	4.44
Crude oil (per bbl)	$	**41.53**	$	37.74
Natural gas liquids (per bbl)	$	**38.28**	$	31.22
Netback pricing (per barrel of oil equivalent)				
Oil and natural gas revenues	$	**40.56**	$	30.99
Royalties	$	**(5.09)**	$	(4.85)
Production	$	**(8.13)**	$	(7.28)
	$	**27.34**	$	18.86
Wells drilled				
Gross		**10**		2
Net		**6.95**		0.45
Success rate		**40%**		100%

(1) Cash flow from operations is a non-GAAP measure that represents cash generated from operating activities before changes in non-cash working capital and is used by the Company to analyze operating performance, leverage and liquidity. Cash flow from operations may not be comparable to similar measures used by other companies.

All calculations converting natural gas to crude oil equivalent in this report have been made using an industry accepted ratio of six thousand cubic feet of natural gas to one barrel of crude oil.

PRESIDENT'S MESSAGE

2003 was a year of revitalization for Veteran Resources. With a new vision, strengthened financial position and energized new team, we have successfully shifted Veteran into high gear. We took the decision early in 2003 to make significant changes that would accelerate our rate of growth and, in turn, enhance returns for shareholders.

To help us achieve our goals, we:

- Appointed a new Chairman of the Board and management team who support a common vision;
- Implemented a new growth strategy;
- Built a new and expanded shareholder base through significant injections of capital and;
- Upgraded our share listing to the Toronto Stock Exchange from the TSX-Venture Exchange.

As a result of these changes, December average daily production almost doubled to 507 boe per day compared to 272 boe per day in December 2002, new core areas were added in western Canada, and the most active drilling program in the Company's history began in late 2003. For shareholders, our business performance translated into a year-over-year doubling in our share price to $0.90 by year-end.

New Leadership

To support the shift in Veteran's direction, we implemented change at every level of the business. Beginning at the Board level, we were pleased to welcome Mr. Kenneth S. Woolner as Chairman of the Board. Mr. Woolner, a professional engineer with more than 20 years of diversified oil and gas experience, was President and CEO of Velvet Exploration Ltd. from its start-up in 1997 until it was sold for $432 million in 2001. Mr. Woolner's vision and leadership resulted in Velvet's growth to a company producing more than 10,000 boe per day, and made it one of the most successful oil and gas stories in our industry's recent history. We are privileged to have the benefit of his executive leadership. We also created additional independence on our Board, from the management team, through the resignation of two vice presidents from the Board.

Coincident with the change in Board members, the Company announced the appointment of three new vice presidents with more than 60 years of combined industry experience and proven track records. In June, Mr. Peter Henry assumed the role of Veteran's Vice President and Chief Financial Officer. Mr. Henry, a Chartered Accountant with 17 years of oil and gas experience, was the CFO of Velvet and a key contributor to the Company's success. His experience in building strong financial and administrative teams has already resulted in the implementation of systems and processes that will support the Company's aggressive growth profile.

At the same time, Mr. David Bardwell, a professional geologist with 28 years of related experience, was appointed Vice President of Exploration. Mr. Bardwell's extensive knowledge of full-cycle exploration and development has contributed to developing and evaluating a number of new exploration and asset opportunities.

In December, a fourth Velvet management alumnus joined the Veteran team as Vice President, Engineering. Mr. Brady Webb, a professional engineer with 23 years of experience, specializes in reservoir engineering. He has already identified potential upside in the Company's current assets and will be instrumental in maximizing value from future exploration success and asset acquisitions.

The fourth member of our management team is Mr. Ivan Wytrychowski, an original founder of Veteran. As Vice President of Operations, Mr. Wytrychowski, a professional engineer, brings more than 30 years of domestic and international experience spanning every aspect of engineering from field operations to reservoir evaluations. Mr. Wytrychowski's operational expertise will be called upon in 2004 when the Company expects to operate a record number of wells.

The foundation of any company is its people and Veteran has assembled a management team that can sustain the Company's growth through 10,000 boe per day of production. Furthermore, for a management team to be truly committed, it must literally as well as figuratively buy into the Company's vision. I am pleased to state that the Directors and Management collectively control approximately 17 percent of Veteran's outstanding shares thereby attuning us directly with our fellow shareholders.

Growth Strategy

Veteran's growth strategy focuses on high-value acquisitions and exploration, both of which were accomplished in 2003.

The acquisition of American Leduc Petroleums Limited ("American Leduc") was completed in October at a total cost of $7.8 million. It provided three new Alberta producing areas at Little Horse, Vega and Kessler, while adding two new exploration opportunities at Snowfall, Alberta and Patry, British Columbia. Operational efficiencies have been initiated at Little Horse and Vega while Snowfall and Patry will feature prominently in the 2004 exploration program.

In October, Veteran established a significant new exploration core area in southwest Saskatchewan through the acquisition of 31,824 acres (49.5 sections) of land at a Crown sale. Five shallow wildcat exploration wells were drilled on the Newton Lake property in late December and all five were cased for further evaluation. To date, only two of the wells have been tested. Initial results of these two wells were not encouraging and before we pursue additional testing on the remaining three wells, additional analysis of the well data will be conducted. A geological and geophysical evaluation of the deeper formations is also being pursued.

Implementation of our growth strategy is supported by operational and financial systems that have been redesigned to support growth. This was necessary to maximize operational efficiencies as we continue to grow, and to introduce new reporting controls to ensure effective management of capital. As well, a number of policies and guidelines were adopted by the Board of Directors in keeping with the Toronto Stock Exchange's guidelines on effective corporate governance.

Capital Injection

To finance the American Leduc acquisition and the planned exploration program, Veteran approached the capital markets and was very well received. A $1.5 million private placement to our management group and members of the Board was completed in April. This was followed in June by an additional $5.5 million offering that was twice oversubscribed and again in November through a "bought deal" offering that raised a further $6 million. The average price of the latter two issues was $0.70 per share.

As well as achieving improved access to capital markets, we were able to increase our credit facility with the National Bank of Canada to $7.3 million. Veteran intends, to the extent possible, to employ a combination of debt and the strength of its common shares as leverage into future opportunities.

In December, as a result of our expanded asset base, we achieved a significant milestone when Veteran listed on the Toronto Stock Exchange. Moving from the junior to the senior exchange has broadened our shareholder base, increased trading liquidity and facilitated investment by institutional investors who now control approximately 20 percent of our outstanding shares.

Outlook

Natural gas storage levels at the start of the 2004 injection season are forecast to be below the five-year average. If the analysts are correct in their expectations for an improved United States economy in the spring, coupled with a decrease in imports to the United States from Canada and Mexico, then natural gas prices should remain strong through the summer and could potentially increase significantly by the end of 2004. While we are optimistic about the future for natural gas prices, we are using a more conservative value of CDN $6.00 per mcf for our 2004 internal forecasts.

Likewise, crude oil prices are expected to stay strong through most of 2004. The uncertainty of the Middle East is expected to continue, while countries like China, with its steady industrial growth profile, are projected to maintain upward pressure on pricing. Veteran is basing its internal projections on a conservative CDN $38.00 per barrel.

Management believes the fundamentals of our industry currently support the growth of emerging companies like Veteran. Our cost of capital and interest rates are low, commodity prices are expected to remain strong, and rationalization and disposition of assets by larger organizations will provide opportunities for smaller companies.

With our new team and systems in place, Veteran is geared up to invest approximately $9 million of capital in 2004, the largest annual budget in our Company's history. Approximately 60 percent is budgeted to participating in drilling 20 wells. The majority of the remaining budget has been allocated to land and seismic, primarily in pursuit of a new full-cycle exploration core area.

As a result of our 2003 efforts, the exploration team has commenced drilling in key prospect areas. In February 2004, two wells were drilled at Snowfall, Alberta. The first was drilled to test a shallow Mississippian natural gas play (net 13.5 percent working interest). The second was a deepening of an existing well bore to evaluate a lower Devonian target (net 12.5 percent working interest). Both were defined by the Company's three-dimensional seismic coverage.

The Mississippian well flowed while drilling at a rate of 1.4 mmcf per day of natural gas through a restricted choke. It is now undergoing production testing in order to establish deliverability. Construction of a two-mile pipeline to tie-in the well has been delayed until December due to summer access restrictions. The second well was suspended after encountering minor shows of oil and water in the target reservoir.

In the Gunnell area of British Columbia, we participated in a Jean Marie horizontal well (net 15 percent working interest), which is currently being completed for natural gas production. A vertical Mississippian test well is also being completed for natural gas production in which Veteran has a 30 percent working interest. At the time of writing, flow rates were not available for either well although each is expected to be capable of 1–2 mmcf per day. A second Jean Marie horizontal well was drilled in late March in which the Company has a 15 percent working interest. Before drilling terminated, this underbalanced well recorded natural gas flow rates of 8 mmcf per day although initial flow rates are expected to be in the 2-3 mmcf per day range. Veteran has 12 contiguous drilling spacing units adjacent to the discovery location.

At Watch/Plante, due to the capital intensive nature of the play, the Company farmed out all of its non-producing shallow rights, down to and including the Cardium Formation, in exchange for 1.9 percent overriding royalty. The operator has since drilled 11 wells at no cost to the Company from which we receive a royalty. Veteran did retain the deep rights on 3,840 acres (6 sections) of land and we participated to 17.5 percent working interest in a well to evaluate the Cadomin Formation. The well was cased in late March and is currently awaiting completion.

During the winter, Veteran participated in a 13 square kilometre, three-dimensional seismic program to define development locations at Cecil, Alberta. Preliminary interpretation of the data is encouraging and supports our Kiskatinaw reservoir model. Drilling prospects identified from the seismic program are anticipated to begin in the third quarter of 2004 with Veteran participating for 26 percent.

In Ontario, we continue to interpret our 2,900-kilometre seismic database, which covers our extensive land holdings of 91,767 gross (83,391 net) acres. Although our first exploration well at Tilbury was unsuccessful, several additional locations remain to be drilled. Management intends to reduce its capital exposure to this project by actively pursuing partners before the next round of drilling.

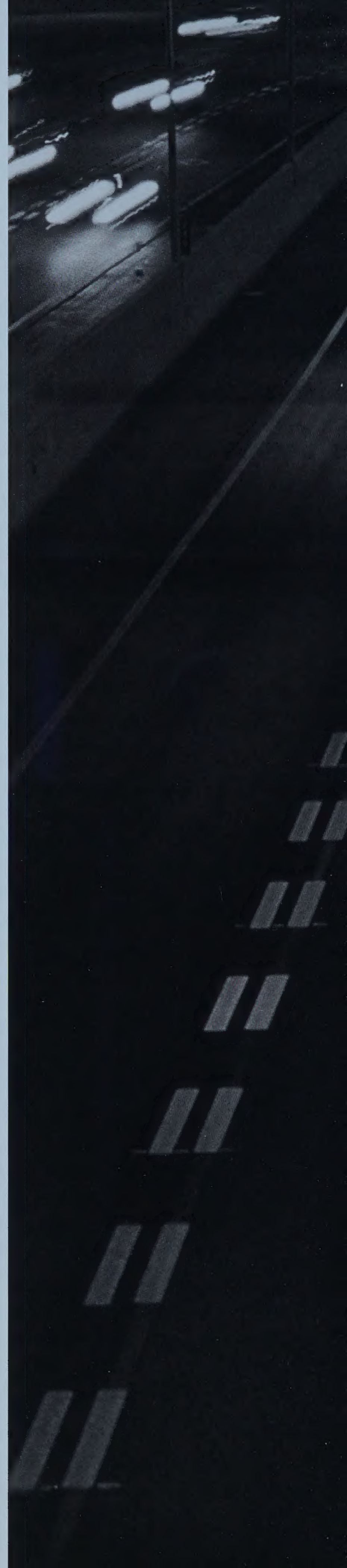
Veteran's ongoing strategy will focus on balanced growth based on asset acquisitions and exploration. Our in-house engineering expertise provides us with the ability to identify untapped value in producing assets, which will provide a competitive advantage on asset acquisitions. Similarly, the exploration team will be searching aggressively for new economic opportunities that will provide sustainable growth.

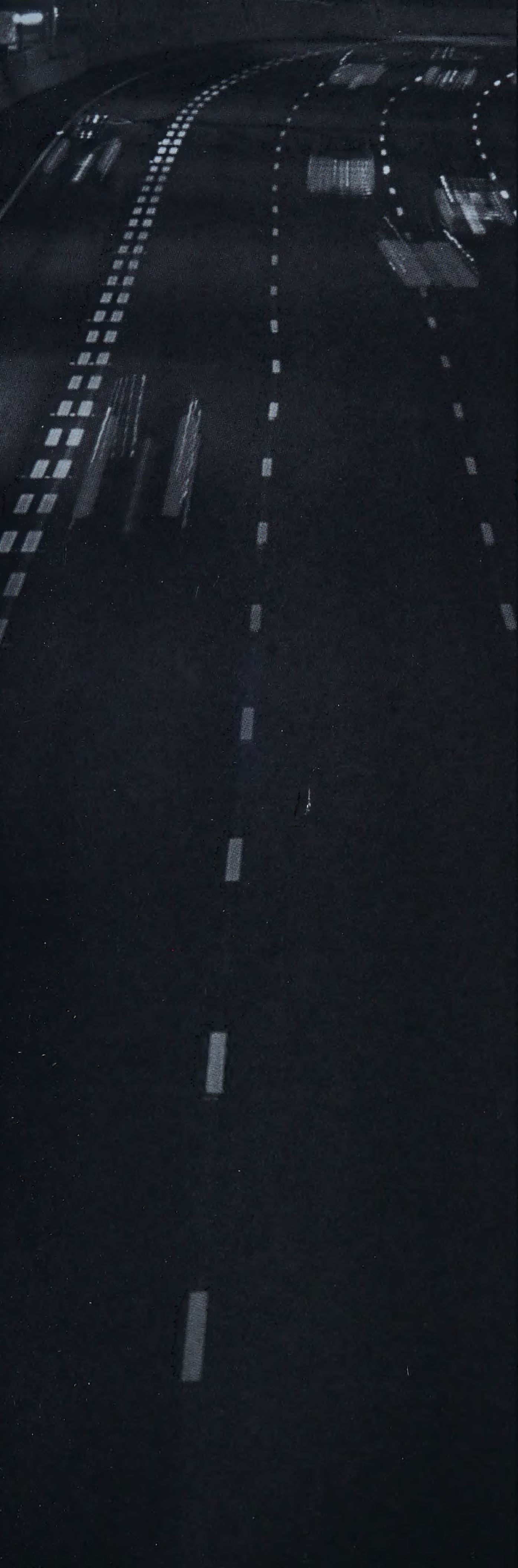
In closing, I would like to thank the shareholders for their support through our revitalization in 2003. I would also like to thank the Board of Directors for their continued support and guidance, and our staff for their ongoing efforts to achieve our goals. Their accomplishments in such a short time frame are a testimony to their commitment to our shareholders.

On behalf of the Board of Directors,

Philip J. Loudon,
President and Chief Executive Officer

April 1, 2004





EXPANSION

Focus on opportunities within natural gas prone areas.

FOCUS AREAS

Veteran has focused on acquiring significant land positions and developing an extensive 2D and 3D seismic database. This will provide the foundation for further exploitation of its producing assets and for the establishment of new, natural gas oriented, full cycle exploration programs. During 2003, these development and exploration activities were focused in northeast British Columbia at Gunnell, Patry and Kotcho, in northwest Alberta at Snowfall, Watch/Plante and Little Horse, in Saskatchewan at Newton Lake and in Ontario at Dover and Tilbury East. The Company expanded its undeveloped land base by 48 percent to 228,310 gross (159,808 net) acres.

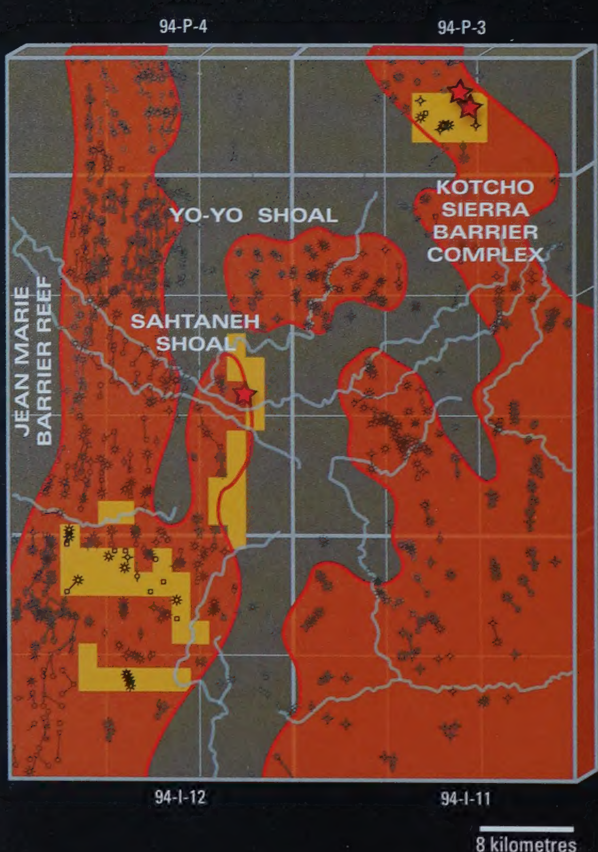
Prior to initiating a new exploration program, the Company completed an extensive and detailed review of its producing and undeveloped assets. This assessment was essential in order to define those assets for rationalization that did not meet rigorous statistical measures and to provide focus for significant expansion in those areas that demonstrate potential for significant economic growth.

In early 2004, Veteran substantially increased its experienced exploration group to include four geologists, a geophysicist and a land manager. The Company is expanding its exploration program to encompass two new core areas and will utilize this geotechnical expertise to focus on opportunities within these areas. Veteran is reviewing selected properties for acquisition while internally generating exploration and development prospects. Management continues to pursue related business projects that will support and accelerate economic growth.

Patry

Veteran holds an average 7.5 percent working interest in 24,794 acres (40 sections) of land in this developing region of northeast British Columbia. One Banff Formation test has been drilled into this contiguous block. The well currently sits suspended pending further evaluation of the two natural gas zones that have been encountered. Both zones have large exploration upside. As a result, the Company has expanded its working interests in future activity to 25 percent and increased its exploration efforts regionally through internal prospect generation, the acquisition of seismic data and the evaluation of further large scale land acquisitions.

British Columbia

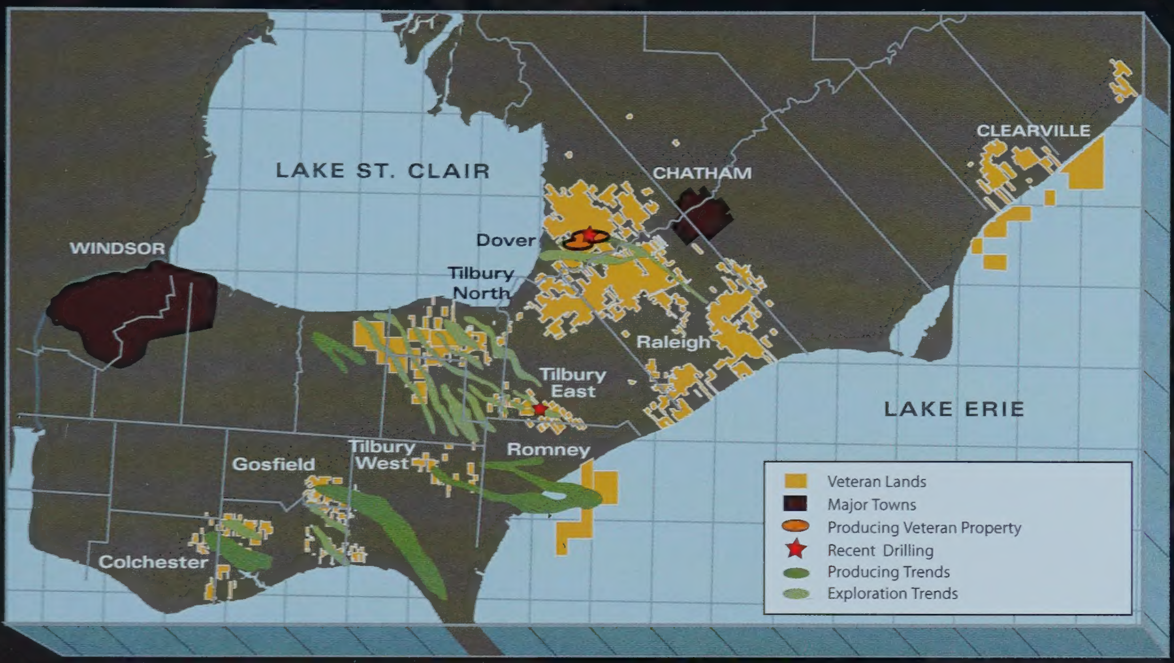


Gunnell

On a total pooled basis, the Company currently retains on average a 30 percent working interest in 37 undrilled spacing units (23,400 acres) prospective for Bluesky, Debolt, Banff and Jean Marie natural gas. The undeveloped acreage is well situated on an extensive fracture system in the Jean Marie Formation that enhances reservoir quality and deliverability.

Veteran holds working interests and gross overriding royalties in 11 drilled spacing units (7,000 acres) including four producing Jean Marie natural gas wells (15-25 percent working interest), four gross overriding royalty wells (4.5 percent) and three recent drills. In the first quarter of 2003, the Company participated for 15 percent working interest in a Jean Marie natural gas well that came on production at approximately 1 mmcf per day.

During the 2004 winter drilling season, Veteran took a 15 percent working interest in a Jean Marie natural gas well at Gunnell which is currently awaiting completion. As well, Veteran had a 30 percent working interest in a new pool Debolt discovery currently waiting on completion. A second Jean Marie horizontal well was drilled in March in which the Company has a 15 percent working interest. Before drilling terminated, this underbalanced well recorded flow rates of 8 mmcf per day. Initial production rates are expected to be in the 2–3 mmcf per day range. Further extensive development work on the remaining undeveloped acreage is anticipated in 2004 with Veteran taking a more active role in the property's development.

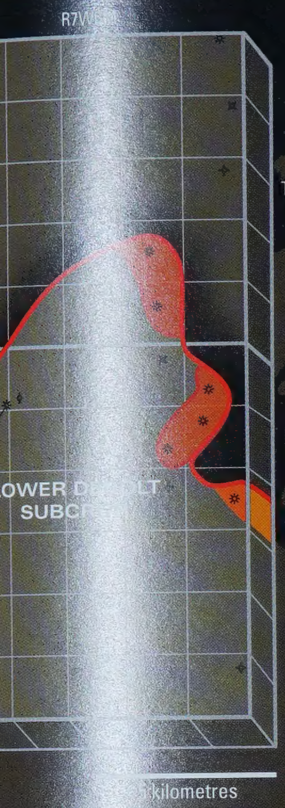


Ontario

Romney

During 2003, the Company successfully drilled one dual zone oil and natural gas development well at Dover and has tied-in the well. Production has been steadily increasing as the well cleans up. It is currently producing 25 boe per day. A detailed reservoir analysis of the Dover pool is underway in order define the best way to optimize recoveries. Prior to year-end, Veteran drilled its first exploration horizontal well at Tilbury East. Hydrocarbon shows encountered while drilling did not prove commercial. The Company is currently reviewing its options with the well bore.

Veteran embarked on a program to explore the Ordovician to Cambrian rock sequence underlying its large, undeveloped land base (estimated 91,500 acres). Throughout 2003 the Company completed a review of the geology and the 2,900 kilometres seismic database identifying numerous potential prospects. Veteran has begun the process of looking for an industry partner prior to starting the next round of drilling. The Company continues to upgrade its land base acquiring and maintaining select lands in areas where prospects have been identified and developed.



Snowfall

In 2003, Veteran acquired a 12.5 to 25 percent working interest in 6 sections (3,840 acres) earned through a farm-in on a dual zone Debolt and Slave Point natural gas prospect. Another four sections of option land are available to be earned by further drilling. The Company also obtained 33 square kilometres of 3D seismic data covering earned and optioned lands.

Veteran has a 12.5 percent working interest in a Slave Point Formation natural gas well that was drilled and placed on production at restricted rates in excess of 1 mmcf per day. The second Slave Point test well that was drilled, cased and completed was suspended pending interpretation of the 3D seismic. In 2004, this well was re-entered and deepened to the PreCambrian to evaluate the lower zones. Hydrocarbon encountered while drilling will impact the future drilling of seismically defined deep targets on the option lands.

During early 2004, the Company took a 12.5 percent working interest in the drilling of a Debolt subcrop well that tested natural gas at 1.4 mmcf per day through a restricted choke with limited drawdown. Two follow up wells can be drilled pending successful production results.

SLAVE POINT

Alberta

Watch/Plante

The Company holds gross overriding royalties and variable working interests to the petroleum and natural gas rights to the base of the Cardium Formation in approximately 9,500 acres (15 sections) and to the base of the Mannville/Triassic in a further 3,800 acres (6 sections). Some of the acreage is retained under a holding allowing for the Cardium Formation to be developed with four wells per section.

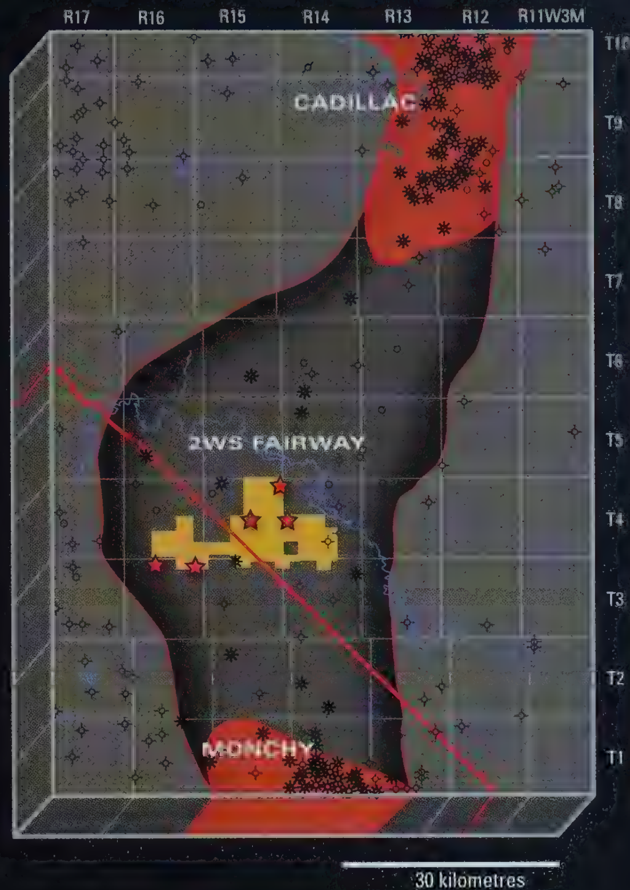
Veteran has working interests in nine producing Belly River and Cardium natural gas-condensate wells (2.25-25 percent) and gross over-riding royalties in eight other wells (1.75-2.25 percent). During 2003, the Company was involved in the drilling of two Cardium natural gas wells each at 15 percent working interest. Due to the capital intensive nature of the shallow natural gas play, Veteran farmed out the shallow rights to the remaining eight sections of undeveloped lands for a gross over-riding royalty and the Company will benefit from additional drilling in the future.

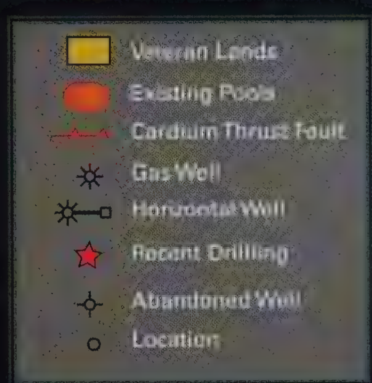
Development of deeper Bluesky-Bullhead zones for natural gas by other companies continued throughout 2003 and into 2004 with the drilling of successful offsetting Notikewin, Gething and Cadomin wells. The company participated for a net 17.5 percent working interest in a successful multizone deep test in March. The well is currently waiting on completion.

Saskatchewan

Newton Lake

In the fall of 2003, Veteran was successful in acquiring a 100 percent working interest to all petroleum and natural gas rights in over 31,800 acres (49.5 sections) of contiguous land in southwest Saskatchewan. The land is situated in the shallow Belly River, Milk River, Medicine Hat and Second White Specks natural gas fairway between the Monchy and Cadillac natural gas pools. The Company drilled and cased five shallow wells prior to year-end and validated all the petroleum and natural gas rights for the acquired land. Evaluation of these wells commenced in the first quarter of 2004 with initial results from three zones in two wells yielding no commercial hydrocarbons. Veteran has acquired seismic data to further evaluate the lands for deeper prospects.





UNDEVELOPED LAND

Veteran increased its gross undeveloped land inventory by approximately 48 percent with the purchase of drilling licenses at Newton Lake, Saskatchewan, adding 31,824 gross and net acres, and the acquisition of American Leduc Petroleums Limited, adding 85,863 gross (11,804 net) acres. When added to Veteran's pre-existing Ontario and Western Canadian holdings, the Company held an inventory of 228,310 gross (159,808 net) acres of undeveloped land at year-end 2003. Antelope Land Services Ltd. has appraised the Company's undeveloped lands to have a replacement value of approximately $8.2 million. Approximately $7 million or 85 percent of this value is attributed to western Canadian lands. Where conversions from acres to hectares were required, the ratio used was 1 hectare to 2.47 acres.

INCREASING

Veteran increased its gross undeveloped land inventory by 48 percent.

UNDEVELOPED LAND RECONCILIATION

At December 31, 2003

	Gross Acres	Net Acres
December 31, 2002	153,851	114,400
Property acquisitions	117,071	56,981
Property expiries and surrenders	(42,612)	(11,573)
December 31, 2003	228,310	159,808
Percentage Change	48%	40%

During 2003, Veteran did not divest any of its undeveloped acreage inventory for cash consideration. The Company holds 5,955 acres of gas storage rights in Ontario in addition to the lands identified on the tables above. As freehold leases in Ontario can be surrendered at each anniversary date under the terms of Ontario's standard petroleum and natural gas leases, and can be renewed at the end of the primary term, the reconciliation reflects expiries and surrenders and the resulting net decrease of undeveloped land in Ontario. As noted in the year-to-year reconciliation, Veteran's undeveloped land holdings increased by 48 percent year-over-year on a gross basis and 40 percent on a net basis. This large undeveloped land base is essential for future Company expansion through exploration.

UNDEVELOPED LAND

At December 31, 2003	Gross Acres	Net Acres		Estimated Value
Alberta				
Little Horse/Dawson	3,162	1,367	$	427,236
Vega	1,897	1,676		268,749
Corbett	2,529	1,265		233,472
Watch/Plante	5,437	886		105,384
Barons	794	777		105,110
Snowfall	2,528	395		70,560
Other	9,858	4,259		505,464
Total Alberta	26,205	10,625	$	1,715,975
Saskatchewan				
Newton Lake	31,824	31,824	$	710,696
Total Saskatchewan	31,824	31,824	$	710,696
British Columbia				
Gunnel/Yoyo	43,020	22,459	$	3,278,079
Blair Creek/Caribou Creek	9,660	9,184		1,084,458
West Patry	24,794	1,908		109,272
Others	1,040	417		125,195
Total British Columbia	78,514	33,968	$	4,597,004
Ontario				
Raleigh	16,848	16,848	$	252,377
Tilbury	16,187	15,894		238,088
Dover	11,830	11,830		176,549
Offshore Lake Erie	15,035	9,662		74,748
Romney	2,342	2,342		35,080
Other	29,525	26,815		405,731
Total Ontario	91,767	83,391	$	1,182,573
Total	228,310	159,808	$	8,206,248

OPERATIONS REVIEW

Drilling Activity

In 2003, Veteran participated in drilling 10 gross (6.95 net) wells. Eight wells (5.45 net) were drilled on the western Canadian property base. Two (0.30 net) were natural gas condensate wells at Watch/Plante, and a third (0.15 net) was a successful natural gas well at Gunnell. The Company drilled five gross (5.0 net) wells in Saskatchewan. In addition, the Company (as operator) drilled two gross (1.5 net) wells in Ontario. The seven operated wells were drilled and cased late in the year. A further nine wells were drilled by third parties on farm-out lands at no cost to the Company.

	2003		2002	
	Gross	Net	Gross	Net
Wells drilled	10	6.95	2	0.45
Gas wells	4	0.95	2	0.45
Oil wells	–	–	–	–
Abandoned wells	3	3	–	–
Suspended wells	3	3	–	–
Success rate	40%		100%	

Crude Oil, NGLs and Natural Gas Reserves

Veteran's 2003 year-end reserves were determined by Sproule Associates Limited through generally accepted engineering methods and are the total remaining recoverable reserves associated with the acreage in which the Company holds an interest.

The Company's "gross reserves" are the Company's working interest share of reserves before the deduction of royalties. The Company's "net reserves" are defined as the "gross reserves" of the properties in which the Company has an interest, less all interests and royalties owned by others, plus any royalty interests owned by the Company. Oil and NGLs reserves are presented in thousands of barrels at stock tank conditions. Pipeline gas reserves are presented in millions of cubic feet at base conditions of 14.65 psia and 60 degrees Fahrenheit. Pipeline gas reserves are the gas reserves remaining after deducting surface losses due to process shrinkage and gas used as fuel.

Sproule Associates Limited have determined and categorized these estimates of the Company's oil, NGLs and natural gas reserves as proven and probable as specified by National Instrument 51-101. This methodology is different from years past when reserves were determined in concert with National Policy 2B. In particular, National Instrument 51-101 requires proved aggregate reserves to have a high level of confidence and proved plus probable reserves are considered to be the best measure of ultimate recoverable reserves. A further change in methodology requires that all gross overriding royalty reserves be excluded from Company interest reserves and only included in net reserves. These changes make it meaningless to compare year-over-year Company interest reserves.

The net present value of the Company's reserves and the Pouce Coupe net profits interest undiscounted and discounted at five percent, 10 percent, 15 percent and 20 percent by reserves category are presented in the following table. The evaluations were based on escalated prices and costs. It should be noted that the Pouce Coupe net profits interest (which was acquired with the American Leduc purchase) has no reserve basis assigned to it even though Sproule Associates Limited has included its value in the determination of before and after tax net present value.

SUMMARY OF OIL AND GAS RESERVES

As of December 31, 2003

Forecast Prices and Costs

Reserves	Light and Medium Oil		Heavy Oil		Natural Gas Liquids		Natural Gas	
Reserves Category	Gross (mbbl)	Net (mbbl)	Gross (mbbl)	Net (mbbl)	Gross (mbbl)	Net (mbbl)	Gross (mmcf)	Net (mmcf)
Proved	336.9	316.1	7.2	6.3	43.6	34.7	2,480	2,280
Developed producing	12.4	10.9	–	–	–	–	295	259
Developed non-producing	59.3	54.7	–	–	–	1.0	–	171
Total proved	408.6	381.7	7.2	6.3	43.6	35.7	2,775	2,710
Probable	229.2	213.0	4.7	4.2	13.0	11.9	1,299	1,358
Total proved plus probable	637.8	594.7	11.9	10.5	56.6	47.6	4,074	4,068

The net present value of the Company's reserves and the value of its Pouce Coupe NPI undiscounted and discounted at five percent, 10 percent, 15 percent and 20 percent by reserves category are presented in the following table. The evaluations were based on escalated prices and costs.

NET PRESENT VALUES OF FUTURE NET REVENUE

($000s)	Before Income Taxes					After Income Taxes				
Discounted at (%/year)	0	5	10	15	20	0	5	10	15	20
Proved	13,762	11,404	9,877	8,802	7,999	13,762	11,404	9,877	8,802	7,999
Developed producing	1,306	664	391	259	187	1,306	664	391	259	187
Developed non-producing	1,101	744	513	353	237	1,101	744	513	353	237
Total proved	16,169	12,812	10,781	9,414	8,423	16,169	12,812	10,781	9,414	8,423
Probable	8,861	5,298	3,628	2,709	2,143	8,861	5,298	3,628	2,709	2,143
Total proved plus probable	25,030	18,110	14,409	12,123	10,566	25,030	18,110	14,409	12,123	10,566

The net present values before and after tax are identical as the Company has sufficient tax pools to shelter future income from the evaluated properties.

The value of the Company's oil and natural gas reserves and the Pouce Coupe NPI was evaluated independently by Sproule Associates Limited through a determination of future cash flow. This was determined prior to any indirect costs, but after the deduction of royalties, operating costs, estimated future capital expenditures, well abandonment costs and future income taxes. It should, however, not be assumed that the estimated cash flow is representative of the fair market value of the reserves. There is no certainty that the price and cost assumptions which are used will be attained, and any variance could be material. The following table presents the Undiscounted Net Revenue for the Company as of December 31, 2003.

($000s)	Revenue	Royalties	Operating Costs	Development Costs	Well Abandonment Costs	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
Proved reserves	34,970	3,262	13,976	749	814	16,169	5,526	10,643*
Proved plus probable reserves	54,718	5,081	22,949	749	909	25,030	–	25,030*

*The after tax total proved plus probable values have been determined using Veteran's tax pools whereas the after tax total proved values included no tax pools.

The following table estimates the Future Net Revenue of the Company by Production Group (discounted at 10 percent) with and without the Pouce Coupe NPI.

FUTURE NET REVENUE BEFORE INCOME TAX, DISCOUNTED AT 10 PERCENT (INCLUDES NET PROFITS INTEREST)

At December 31, 2003

Forecast Prices and Costs (000s)

Reserve Category	$
Proved Reserves	
Light & medium oil (including solution gas and by-products)	4,111
Heavy oil (including solution gas and by-products)	95
Natural gas (including by-products but excluding solution gas from oil wells)	6,575
	10,781
Proved Plus Probable Reserves	
Light & medium oil (including solution gas and by-products)	6,068
Heavy oil (including solution gas and by-products)	142
Natural gas (including by-products but excluding solution gas from oil wells)	8,199
	14,409

FUTURE NET REVENUE BEFORE INCOME TAX, DISCOUNTED AT 10 PERCENT (EXCLUDES NET PROFITS INTEREST)

At December 31, 2003

Forecast Prices and Costs (000s)

Reserve Category	$
Proved Reserves	
Light & medium oil (including solution gas and by-products)	3,958
Heavy oil (including solution gas and by-products)	75
Natural gas (including by-products but excluding solution gas from oil wells)	5,818
	9,851
Proved Plus Probable Reserves	
Light & medium oil (including solution gas and by-products)	5,880
Heavy oil (including solution gas and by-products)	142
Natural gas (including by-products but excluding solution gas from oil wells)	7,316
	13,338

The price forecast used in the Sproule Evaluation is presented in the following table.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS

At January 1, 2004

Forecast Prices and Costs

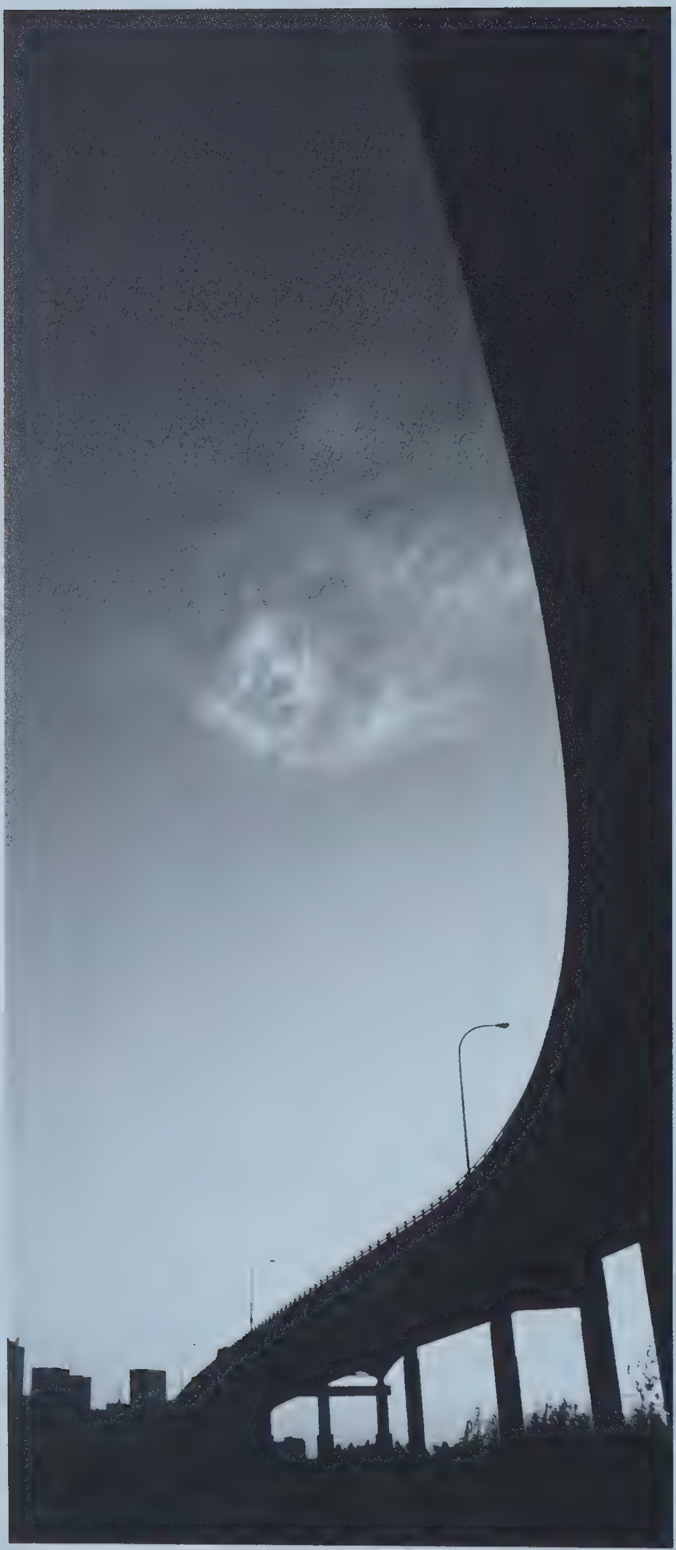
Year	WTI Cushing Oklahoma ($US/bbl)	Price 40° API ($Cdn/bbl)	Cromer Medium 29.3° API ($Cdn/bbl)	Natural Gas AECO Gas Price ($Cdn/mmBtu)	Pentanes FOB Edmonton ($Cdn/bbl)	Butanes FOB Field Gate ($Cdn/bbl)	Edmonton Propane FOB Field Gate ($Cdn/bbl)	Plant Gate Sulpher (Mlt)	Inflation Rates (%)	Cdn/US Exchange Rates ($)
Historical										
2000	30.30	44.03	39.90	5.07	46.27	34.83	31.34	14.14	1.5	0.674
2001	25.94	39.06	31.56	6.23	42.46	27.93	29.87	(2.26)	2.0	0.646
2002	26.09	40.12	35.46	4.04	40.80	25.39	20.36	12.71	2.7	0.637
2003	31.13	43.21	37.50	6.66	44.14	34.41	32.87	42.34	2.5	0.716
Forecast										
2004	29.63	37.99	32.99	6.04	38.91	31.15	28.04	40.00	1.5	0.750
2005	26.80	34.24	29.44	5.36	35.07	25.52	22.56	30.45	1.5	0.750
2006	25.76	32.87	28.47	4.80	33.67	23.28	20.58	20.60	1.5	0.750
2007	26.14	33.37	29.07	4.91	34.17	23.63	20.89	15.69	1.5	0.750
2008	26.53	33.87	29.54	4.98	34.69	23.98	21.20	15.92	1.5	0.750
thereafter various escalation rates										

Crude oil, NGLs and natural gas reserves changes year-over-year as a result of extensions, improved recovery, technical revisions and acquisition are illustrated on the following table. This reconciliation for 2003 is based on escalated prices and costs. It should be noted that the reserve calculation methodology has changed year-over-year due to the introduction of National Instrument 51-101 which requires the reconciliation to be determined on "net" rather than "working interest" reserves.

On a "net" proved plus probable basis, crude oil and natural gas liquids reserves increased from 377.3 mbbl. to 652.8 mbbl for an overall increase of 275.5 mbbl or 73 percent. Similarly, on a "net" proved plus probable basis, natural gas reserves increased from 3,363 mcf to 4,068 mcf for an increase of 705 mcf or 21 percent.

RESERVE RECONCILIATION

	Light, Medium and Heavy Oil (mbbl)			Natural Gas Liquids (mbbl)			Associated & Unassociated Gas (mmcf)		
	Net Proved	Net Probable	Net P+P	Net Proved	Net Probable	Net P+P	Net Proved	Net Probable	Net P+P
Dec 31/02	334.7	3.7	338.4	32.5	6.4	38.9	2,635.0	728.0	3,363.0
Extensions	33.2	50.5	83.7	2.6	5.6	8.2	(211.0)	144.0	(67.0)
Technical Revisions	(69.5)	107.0	37.5	4.6	(1.0)	3.6	(108.7)	97.0	(11.7)
Discoveries	1.9	1.4	3.3	–	–	–	1.0	1.0	2.0
Acquisitions	113.1	54.6	167.7	1.5	0.9	2.4	658.0	388.0	1,046.0
Production	(25.4)	–	(25.4)	(5.5)	–	(5.5)	(264.3)	–	(264.3)
Dec 31/03	388.0	217.2	605.2	35.7	11.9	47.6	2,710.0	1,358.0	4,068.0



Product Sales

Sales of crude oil and natural gas liquids averaged 142 bbl per day while sales of natural gas averaged 1,122 mcf per day during 2003. Aggregate sales averaged 329 boe per day, an increase of 136 boe per day or 70 percent compared to sales recorded during 2002. Overall sales during December 2003 averaged 507 boe per day reflecting 2003 drilling and the acquisition of American Leduc in October. The December average of 507 boe per day rose 235 boe per day or 86 percent compared to December 2002 sales of 272 boe per day. Veteran's largest producing asset in 2003 was the Gunnell property which provided 72 boe per day or 22 percent of the Company's sales. Veteran's largest producing asset in December 2003 was the Little Horse oil property which provided 153 bbl per day or 30 percent of the Company's December sales. At year-end 2003, the Company's sales were split almost evenly with 53 percent of sales attributed to liquids and 47 percent to natural gas.

2003 ANNUAL AVERAGE DAILY SALES

Area	Oil (bbl/d)	NGLs (bbl/d)	Natural Gas (mcf/d)	Total (boe/d)	Contribution (%)
Gunnell	–	2	419	72	22
Watch/Plante	–	16	332	71	22
Ontario	33	–	219	70	21
Provost/Kessler	39	–	52	48	14
Little Horse	30	–	–	30	9
Barons	19	–	–	19	6
Vega	–	–	44	7	2
Miscellaneous	3	–	56	12	4
Total	124	18	1,122	329	100

DECEMBER 2003 AVERAGE DAILY SALES

Area	Oil (bbl/d)	NGLs (bbl/d)	Natural Gas (mcf/d)	Total (boe/d)	Contribution (%)
Little Horse	153	–	–	153	30
Watch/Plante	–	18	342	75	15
Provost/Kessler	36	–	182	67	13
Ontario	29	–	213	65	13
Gunnell	–	1	332	56	11
Vega	2	–	211	37	7
Barons	32	–	–	32	6
Miscellaneous	–	–	134	22	5
Total	252	19	1,414	507	100

MARKETING

Crude Oil and NGLs

Veteran continued to sell its liquid production under short-term arrangements during the past year. The Company's average crude oil price was $41.53 per barrel in 2003, up 10 percent from $37.74 per barrel in 2002. The average NGLs price received by the Company was $38.28 per barrel, an increase of $7.06 per barrel, or 23 percent above the $31.22 per barrel received during 2002. Crude oil and NGLs prices remained firm throughout 2003 as a consequence of the Iraq invasion and OPEC's continuing limits on production. Veteran has not hedged any of its crude oil or NGLs production for 2004 but will continue to monitor changes in the market as the year progresses.

Natural Gas

Veteran maintains its 100 percent exposure to the spot natural gas market and continues to believe that new North American supplies will be insufficient to offset normal declines in older fields. Decreased natural gas deliveries to the U.S. market are expected to have a modest impact on prices. The Company has not hedged any of its gas production for 2004 and, based on industry and internal forecasts, expects prices to remain firm throughout this year. The Company received an average natural gas price of $6.69 per mcf in 2003, an increase of $2.25 per mcf or 51 percent compared to $4.44 per mcf received during 2002.

HEALTH, SAFETY & ENVIRONMENT

With its revitalization in 2003, Veteran became an active explorer and producer of oil and natural gas.

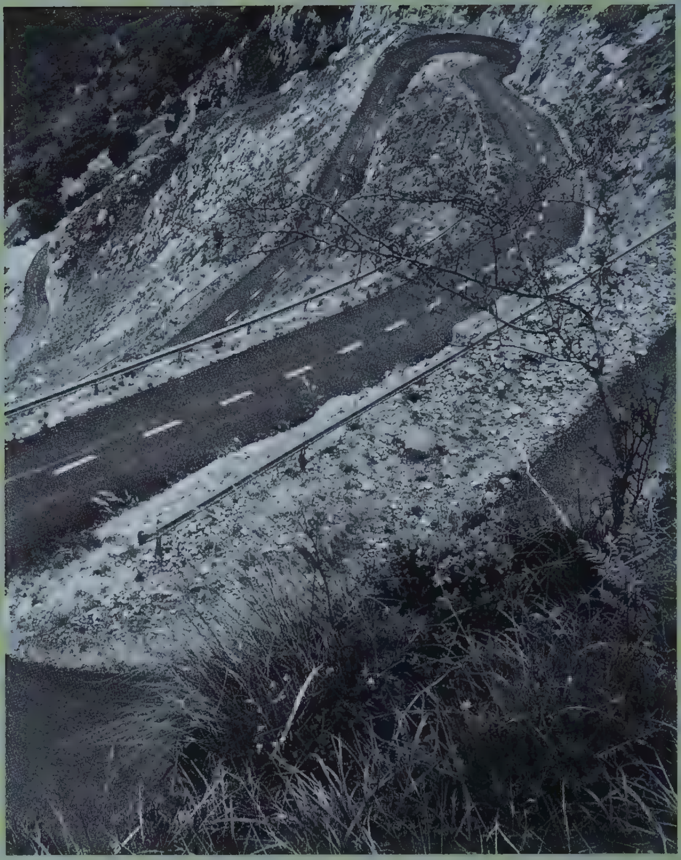
Veteran's management and directors are aware of the risks inherent in oil and gas exploration, development and production activities, and all Company employees and contractors are charged with the responsibility to conduct operations in accordance with Occupational Health and Safety laws and regulations. To support this responsibility, the Company has developed an emergency response program for its employees and contractors. The Company is also developing a comprehensive environmental and safety program, which will be implemented in stages during 2004.

The Company reduces the risks inherent in its activities through careful planning and conducts operations in accordance with a high standard of oilfield practices. Veteran also conducts continued well abandonment and restoration activities to minimize future environmental costs.

MD&A

Management's discussion and analysis ("MD&A") of financial conditions and operating results should be read in conjunction with the audited financial statements for the year ended December 31, 2003 and the audited financial statements and MD&A for the year ended December 31, 2002. All data is presented in Canadian dollars. Barrels of oil equivalent ("boe") have been calculated using an industry accepted conversion rate of six thousand cubic feet of natural gas to one barrel of oil. Analysis includes events that have occurred up to the date of the MD&A, April 1, 2004. Financial data has been prepared in accordance with accounting principles generally accepted in Canada.

Additional information relating to Veteran, including our Annual Information Form is available at www.sedar.com.



CORPORATE PERFORMANCE

Veteran is a Canadian energy company engaged in the business of exploration, development and production of crude oil and natural gas in western Canada and Ontario. On June 1, 2003, the Company initiated a corporate revitalization that resulted in changes to the Board of Directors and Management, a significant infusion of cash and the implementation of a growth strategy. The revitalization gave rise to significant increases to the Company's capital asset and production bases by year-end. At December 31, 2003, Veteran had increased share capital to $28.6 million while limiting the working capital deficiency, including the bank loan, to a very manageable $2.9 million.

The Company completed two corporate acquisitions during the year. Effective October 17, 2003, Veteran acquired all of the issued and outstanding shares of American Leduc Petroleums Limited ("American Leduc") and wound American Leduc up into Veteran. The acquisition cost of $7.8 million was financed with a cash outlay of $7.0 million and the assumption of American Leduc's bank loan and net liabilities of approximately $0.8 million. The acquisition provided two new Alberta core areas and doubled the Company's daily production. The financial statements include the results of operations for American Leduc from the date of the acquisition, October 17, 2003.

The acquisition of Grand River Energy Ltd., a private Alberta company that held rights to earn various interests in the Company's Ontario properties, closed on May 13, 2003. The purchase price was $640,000, payable by the issuance of 1,600,000 shares of Veteran. Because the acquisition involved the purchase of rights to earn an interest in certain properties, there was no impact on the Company's financial results from May 13, 2003.

SELECTED ANNUAL INFORMATION

		2003		2002		2001
Oil and gas revenues	$	4,861,871	$	2,187,125	$	2,536,406
Net earnings (loss)	$	289,853	$	1,507	$	(2,619,933)
Per share	$	0.01	$	–	$	(0.10)
Per share fully diluted	$	0.01	$	–	$	(0.10)
Total assets	$	27,258,936	$	13,852,510	$	8,817,416
Total long-term liabilities	$	–	$	–	$	–

Oil and gas revenues increased 122 percent in 2003 as the price of natural gas increased from $4.44 per mcf to $6.69 per mcf, and the Company recorded revenues from the American Leduc acquisition during the last quarter. While production was relatively constant from 2001 to 2002, a drop in the natural gas price reduced revenues during that period.

Net earnings increased in 2003 as the revenue increases derived from strong gas prices did not result in a corresponding increase in operating costs and general and administration expenses, which are generally more volume or activity driven. In 2001, the Company recorded a $2,600,000 write-down of its capital assets.

Total assets almost doubled in 2003 as Veteran raised approximately $13 million and reinvested cash flow generated from operations into its capital program.

All of the Company's bank debt has been classified as a current liability as amounts are drawn under a revolving demand loan facility.

RESULTS OF OPERATIONS

OIL AND NATURAL GAS REVENUES

		3 months ended December 31, 2003		Year ended December 31, 2003		3 months ended December 31, 2002		Year ended December 31, 2002
Oil and natural gas liquids	$	896,491	$	2,123,200	$	373,698	$	1,079,827
Per barrel	$	40.18	$	41.12	$	43.21	$	37.08
Natural gas	$	735,931	$	2,738,671	$	538,105	$	1,107,298
Per mcf	$	5.37	$	6.69	$	5.43	$	4.44
Oil, liquids and natural gas	$	1,632,422	$	4,861,871	$	911,803	$	2,187,125
Per barrel of oil equivalent	$	36.10	$	40.56	$	36.23	$	30.99

OIL AND NATURAL GAS SALES VOLUMES

	3 months ended December 31, 2003	Year ended December 31, 2003	3 months ended December 31, 2002	Year ended December 31, 2002
Oil and natural gas liquids (bbl/d)	243	142	94	80
Natural gas (mcf/d)	1,490	1,122	1,077	678
Barrel of oil equivalent (boe/d)	491	329	274	193

Increases in sales volumes from the American Leduc properties acquired during the fourth quarter of 2003 and relatively unchanged commodity prices translated into a 79 percent increase in gross revenue for the fourth quarter of 2003 over the same quarter in 2002. Stronger volumes and prices also drove gross revenues up for the full year 2003, leading to a 122 percent increase over 2002.

Veteran closed an acquisition of producing properties in Ontario on November 1, 2002, which significantly increased 2002 fourth quarter revenues.

Oil and natural gas liquids were the Company's dominant commodities during the quarter, contributing 55 percent to fourth quarter revenues. Natural gas revenues were reduced to 45 percent of total revenues for the quarter by production from the American Leduc properties, which is weighted more towards oil. Natural gas revenues still comprised 56 percent of total revenues for the full year 2003 as the results of operations from the American Leduc acquisition were recorded from October 17, 2003, the date of the acquisition. Veteran's exploration and development program for 2004 is focussed more on natural gas than on oil, and it is expected that the Company's production for 2004 will be relatively evenly balanced between the two commodities.

Sales volumes from Veteran's original properties were 255 boe per day during the fourth quarter, which was consistent with expected declines in production rates for the properties. Sales were up over the third quarter rate of 239 boe per day as operational events at Barons, Alberta and Gunnell, B.C., that had reduced sales by 30 boe per day, were rectified during the quarter. Sales volumes acquired through the American Leduc acquisition added 236 boe per day for the fourth quarter and an average of 285 boe per day from October 17, 2003. Sales volumes include volumes attributed to gross overriding royalties and a net profits interest that Veteran holds on certain properties.

Commodities pricing for the quarter, on an equivalent unit basis, remained strong at $36.10 per boe, virtually unchanged from both the previous quarter and the fourth quarter of 2002. The natural gas price dipped slightly during the quarter, dropping $0.45 per mcf, as a late fall in the major natural gas consuming regions on the east coast of the continent delayed withdrawals from storage, which returned current storage levels to just under the three-year average. Storage levels have recovered from the historical lows in the spring of 2003, yet increased demand from a strengthening North American economy and supply challenges appear sufficient to maintain strong pricing for natural gas throughout 2004. Veteran's Corporate oil price remained consistent between the third and fourth quarters of 2003, though down 11 percent when compared to the fourth quarter of 2002. Strong demand from a burgeoning economy in China, combined with tighter control of supplies by OPEC and unrest in the Middle East, have kept oil prices at historically high levels. Though it is not expected that prices will stay at the current mid US $30 dollar price range throughout the year, public perception is that the average price will remain strong for the year at close to US $30 dollars.

ROYALTIES

	3 months ended December 31, 2003	Year ended December 31, 2003	3 months ended December 31, 2002	Year ended December 31, 2002
Royalties, net of ARTC	$ 155,220	$ 610,318	$ 170,552	$ 342,202
Percentage of revenue	9.5%	12.6%	18.7%	15.6%
Per boe	$ 3.44	$ 5.10	$ 6.77	$ 4.86

Royalties, net of Alberta Royalty Tax Credits (ARTC), as a percentage of revenues, dropped considerably for both the fourth quarter and the full year of 2003. These royalty rates are an anomaly, as Crown royalty adjustments resulting from the joint venture audit of an independent operator were completed during the last four months of the year. The normalized royalty rate was 15 percent for the quarter and 14 percent for the year, more in line with previous periods. The production acquired from American Leduc carried a royalty burden of 18 percent, slightly higher than that of Veteran's properties.

Veteran's Ontario production, which has a low freehold royalty rate burden averaging approximately 12 percent, complemented an existing production base with low royalty rates resulting in Corporate average rates below industry standards. Combined with premium pricing on Ontario production, these low royalty rates contribute to relatively high Corporate netbacks by industry standards.

PRODUCTION EXPENSES

	3 months ended December 31, 2003	Year ended December 31, 2003	3 months ended December 31, 2002	Year ended December 31, 2002
Production expense	$ 324,483	$ 974,061	$ 87,079	$ 513,913
Per boe	$ 7.18	$ 8.14	$ 3.45	$ 7.30

Production expense for 2003 increased on a per unit basis by 12 percent over 2002. For the fourth quarter of 2003, production expenses were up considerably over 2002, a year when Veteran recorded significant reductions from one-time processing adjustments related to the years 2001 and 2002. As with royalty expenses, the fourth quarter production expense level is anomalous as field operating expenses were reduced from the settlement of a lengthy dispute with an operator of the Provost, Alberta properties. Without these adjustments, the normalized rate for the quarter was $9.67 per boe, a rate similar to that of the first half of 2003. Processing fee adjustments from the audit of an independent operator reduced third quarter rates as well. The normalized rate for the full year in 2003 was $9.71 per boe. Production from American Leduc properties carried a production expense of $12.51 per boe, which is higher than Veteran's historical rate. It is expected that unit production expenses will remain at or above normalized 2003 levels until production gains from new drilling provide for operating economies of scale.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

	3 months ended December 31, 2003	Year ended December 31, 2003	3 months ended December 31, 2002	Year ended December 31, 2002
Gross G&A	$ 752,503	$ 1,731,330	$ 301,597	$ 1,119,058
Capitalized administration	$ (174,229)	$ (421,602)	$ (106,621)	$ (487,712)
Overhead recoveries	$ (47,364)	$ (79,814)	$ (5,400)	$ (5,400)
Net G&A	$ 530,910	$ 1,229,914	$ 189,576	$ 625,946
Per boe	$ 11.75	$ 10.27	$ 7.52	$ 8.89

Employees and consultants at December 31	2003	2002
Office	11	9
Field	3	3
Total	14	12

Net G&A expenses for 2003 increased by 16 percent over 2002, on a per unit basis. Expenses for 2003 remained high, on a per unit basis, as they included the cost of staffing and organizational changes completed during the second half of the year as part of the Company's revitalization. The Company does not anticipate material increases in G&A expenditures as it implements its current strategy. It is expected that future costs, on a unit basis, will decrease as the Company implements its growth plan and builds the production base.

FINANCING CHARGES

Financing charges were relatively small during 2003 as Veteran was able to finance capital expenditures primarily through the issuance of share capital and from funds generated from operations. Bank debt was drawn upon late in the year to finance the drilling of wells in Ontario and Saskatchewan.

DEPLETION, DEPRECIATION AND SITE RESTORATION EXPENSES

	3 months ended December 31, 2003	Year ended December 31, 2003	3 months ended December 31, 2002	Year ended December 31, 2002
Depletion and depreciation	$ 795,901	$ 1,518,294	$ 197,014	$ 602,744
Per boe	$ 17.62	$ 12.68	$ 7.82	$ 8.56
Site restoration	$ 92,197	$ 124,489	$ (6,825)	$ 15,675
Per boe	$ 2.04	$ 1.04	$ –	$ 0.22
Total	$ 888,098	$ 1,642,783	$ 190,189	$ 618,419
Per boe	$ 19.66	$ 13.72	$ 7.54	$ 8.78

Depletion and depreciation expense increased, on a per unit basis, by 48 percent in 2003 compared to 2002. Expenses rose in 2003 from two acquisitions, completed late in 2002 and in 2003, and from the impact of a change in the method of estimating reserves upon the adoption of National Instrument 51-101. The acquisition of Ontario properties in November 2002 pushed 2003 expenses through the first three quarters of 2003 to $9.67 per boe. The acquisition of American Leduc properties on October 17, 2003 and the change in the method of estimating reserves at year-end raised the fourth quarter rate further to $17.62 per boe. The fourth quarter 2003 figure is reflective of the Company's current capital base.

INCOME TAXES

The Company does not record a future tax liability as it has an excess of accumulated income tax deductions over the net book value of capital assets. Capital taxes, the Company's Large Corporation Tax liability, have been recorded for the first time in 2003 as equity issues increased the Company's capital base above the exemption limit. The Company is not currently cash taxable nor does it anticipate paying income taxes during 2004.

Tax Pools	2003	2002
Canadian oil and gas property expenses	$ 13,499,000	$ 6,166,000
Canadian exploration expenses	$ 5,035,000	$ 4,291,000
Canadian development expenses	$ 3,780,000	$ 5,093,000
Undepreciated capital costs	$ 4,407,000	$ 2,161,000
Share issue costs	$ 868,000	$ 288,000
Loss carry forwards	$ 67,000	$ 67,000
	$ 27,656,000	$ 18,066,000

CAPITAL EXPENDITURES

	3 months ended December 31, 2003	Year ended December 31, 2003	3 months ended December 31, 2002	Year ended December 31, 2002
Land and acquisitions	$ 7,892,377	$ 10,463,402	$ 3,324,197	$ 3,321,050
Geological and geophysical	$ 77,886	$ 101,730	$ –	$ –
Drilling and completions	$ 2,277,197	$ 2,928,640	$ 196,675	$ 691,787
Facilities	$ –	$ 19,094	$ 174,665	$ 148,253
Production equipment	$ 13,713	$ 124,411	$ 1,142	$ –
Capitalized G&A	$ 174,229	$ 421,602	$ 106,621	$ 487,712
Office equipment	$ 12,845	$ 148,141	$ –	$ 11,724
	$ 10,448,247	$ 14,207,020	$ 3,803,300	$ 4,660,526

Capital expenditures were focussed on the $7.0 million expenditure related to the acquisition of American Leduc and the initiation of an exploration drilling program during the fourth quarter of 2003 as the Company implemented its strategic plan. Veteran drilled a horizontal well in Ontario on freehold lands and five shallow gas wells in Saskatchewan on Crown lands acquired in October 2003. The Company has an aggressive exploration and development program in place for 2004 with an approved budget of $9.1 million. Drilling and completion activities will comprise more than half of this total. Capital activities will be funded with cash flow generated from operations and supplemented with bank debt.

Capital Budget	2004	%
Land	$ 1,400,000	15
Geological and geophysical	$ 500,000	6
Drilling and completions	$ 5,100,000	56
Facilities	$ 1,200,000	13
Corporate	$ 900,000	10
	$ 9,100,000	100

The Company has no contractual commitments to any of the projects budgeted for 2004; however, there is a monthly review of capital expenditures versus the monthly budget, as well as a review of costs to complete current projects, to ensure that any changes to cash flow from operations or available bank debt may be recognized through budget revisions. Annual lease payments required to maintain ownership of Veteran's land position comprise five percent of the 2004 capital budget.

Share Capital

Corporate fund raising formed an integral part of the Company's revitalization in 2003. Three separate private placements involving common and flow-through shares that closed in May, June and November 2003 resulted in gross proceeds to the Company of $13.0 million, which was used to fund fourth quarter capital expenditures and pay down existing bank debt. The Company also completed a small private placement of units in January 2003, which raised $0.6 million and issued $0.6 million in common shares to complete the acquisition of Grand River Energy Ltd. in May 2003.

Proceeds from the issuance of flow-through shares totalled $7.4 million during the year. The Company renounced $3.7 million in flow-through expenditures to shareholders of 2002 and 2003 flow-through issuances, leaving approximately $5.1 million to be incurred and renounced to shareholders in 2004.

EARNINGS AND CASH FLOW

		3 months ended December 31, 2003		Year ended December 31, 2003		3 months ended December 31, 2002		Year ended December 31, 2002
Net earnings (loss)	$	(293,330)	$	289,853	$	219,249	$	1,507
Per share	$	(0.01)	$	0.01	$	0.01	$	–
Per share fully diluted	$	(0.01)	$	0.01	$	0.01	$	–
Cash flow from operations	$	665,289	$	2,003,157	$	409,438	$	619,926
Per share	$	0.01	$	0.05	$	0.01	$	0.02
Per share fully diluted	$	0.01	$	0.04	$	0.01	$	0.02

Cash flow from operations during the fourth quarter benefitted from increased volumes from American Leduc acquired properties. A net loss in the fourth quarter of 2003 was the result of adjustments relating to the Company's revitalization and higher depletion from a change in method of calculating year-end reserves and the acquisition of American Leduc which had a higher cost base in its properties.

Cash flow from operations for the fourth quarter was up 62 percent over the same quarter in 2002 as both sales volumes and revenues were up over 70 percent while commodity prices remained relatively constant between the quarters.

Cash flow from operations is a non-GAAP measure that represents cash generated from operating activities before changes in non-cash working capital and is used by the Company to analyze operating performance, leverage and liquidity. Cash flow from operations may not be comparable to similar measures used by other companies.

SENSITIVITIES

The following are the variables that have the greatest impact on 2004 budgeted cash flow:

Natural gas		Cash Flow		Cash Flow per Share
Per $0.10 per mcf	$	85,000	$	–
Per 100 mcf per day	$	153,000	$	–
Oil				
Per US $1.00 WTI	$	167,000	$	–
Per 10 bbls per day	$	89,000	$	–
Exchange rate				
Per US $0.01	$	57,000	$	–
Interest rate				
Per 1% prime	$	57,000	$	–

Future Trends and Risk Factors

The exploration, development, production and marketing of crude oil and natural gas reserves carry certain risks. There is the risk associated with accessing capital when required and at competitive rates, the economic risk of finding reserves and bringing them on-stream at reasonable cost, and the financial risk of selling these commodities at a competitive price in potentially turbulent markets.

Veteran's land holdings are currently distributed in western Canada and Ontario. The Company attempts to limit risk by employing professionals who have experience in its major core areas, and by using leading-edge technology.

Production from our core areas is balanced between crude oil and natural gas, providing diversification through exposure to differing commodity markets. The price of natural gas is at unprecedented levels as a result of additional pipeline capacity to the U.S. and strong demand throughout North America. Expansion in the Canadian market has reduced the pricing differential between U.S. and Canadian markets, strengthening the price for Alberta production.

The price Veteran receives for its crude oil production is affected by several factors. These include the quality of the oil, prices of competing fuels, value of refined products, distance to markets and supply/demand balance. Veteran is also exposed to risk from exchange fluctuations between the U.S. and Canadian dollars as it receives the majority of its oil revenues from contracts paid in U.S. dollars. Veteran's production from Ontario properties receives a premium price because it is located in close proximity to major eastcoast consuming regions.

A strong Canadian economy coupled with a relative weakening in the U.S. economy in 2003 versus competing global powers, has contributed to a much stronger Canadian dollar. A prior slowdown in the U.S. economy put pressure on the U.S. Central Bank to lower short-term lending rates. Canada followed suit resulting in a drop in Canadian prime lending rates to 4.00 percent at the time of this writing. Our exposure to fluctuations in these areas is small relative to commodity price swings.

Financial hedging instruments will be used, where appropriate, to provide stability with respect to commodities pricing, interest and exchange rates. Veteran did not have any financial instruments or hedging contracts in place during 2003, nor does it have any currently. Although the Company expects commodity prices to remain strong throughout 2004, it will re-evaluate the need for any hedging contracts on a routine basis throughout the year.

Accessing capital when required, and at competitive rates, is highly dependent on market conditions. Veteran has utilized various financing vehicles to fund its capital programs, including farm-outs and asset dispositions, which has resulted in an effective use of debt financing. We continuously monitor the capital mix, paying particular attention to debt levels, as market conditions remain volatile.

There are numerous uncertainties inherent in estimating quantities of reserves and the cash flow that would result from these reserves, including many factors that are beyond the control of the Company. Evaluations of reserves, including those contained in this report, represent estimates only and include a number of assumptions. Veteran's future reserves, production and cash flows are dependent on its success in developing the current reserve base and acquiring additional lands for exploration and development. Without the addition of reserves, the Company's existing reserves and production are subject to continued decline.

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. All current legislation is a matter of public record and we are unable to predict what additional legislation or amendments may be enacted.

The oil and natural gas industry is also subject to environmental regulation pursuant to local, provincial and federal legislation. Veteran is committed to meeting its responsibilities to protect the environment, and to this end, the Board of Directors monitors an environment and safety management system to ensure appropriate policies and procedures are in place.

SUMMARY OF QUARTERLY RESULTS

(unaudited)

2003		December 31		September 30		June 30		March 31
Revenues	$	1,632,422	$	802,863	$	1,102,848	$	1,323,738
Revenues, net of royalties	$	1,477,202	$	713,166	$	942,823	$	1,118,362
Net earnings (loss)	$	(293,330)	$	128,903	$	77,800	$	376,480
Per share	$	(0.01)	$	0.01	$	–	$	0.01
Per share fully diluted	$	(0.01)	$	0.01	$	–	$	0.01
Average sales (boe/d)		491		239		295		286
Average sales price (per boe)	$	36.10	$	36.51	$	40.93	$	51.36

2002		December 31		September 30		June 30		March 31
Revenues	$	911,803	$	475,022	$	422,030	$	378,270
Revenues, net of royalties	$	741,251	$	421,023	$	345,896	$	336,753
Net earnings (loss)	$	219,249	$	(165,196)	$	(39,839)	$	(12,707)
Per share	$	–	$	(0.01)	$	–	$	–
Per share fully diluted	$	–	$	(0.01)	$	–	$	–
Average sales (boe/d)		274		172		155		164
Average sales price (per boe)	$	36.23	$	30.02	$	29.92	$	25.67

Quarterly revenues were relatively consistent through the first three quarters of 2002. The acquisition of Ontario properties in November 2002, combined with a 28 percent increase in the Company's average commodity price, led to a doubling of revenues in the fourth quarter of that year. Earnings were flat for the first six months of 2002, however general and administrative expenditures related to the establishment of an Ontario office and a 96 percent increase in the third quarter depletion expense resulting from adjustments to the 2002 provision in prior quarters contributed to a loss in the third quarter.

Higher production volumes and commodities pricing in 2003 resulted in net earnings for the year. Quarterly earnings dropped by almost $300,000 in the second quarter of 2003 due to a 20 percent drop in both oil and natural gas prices and increased general and administrative expenses related to the Corporate revitalization that began in May 2003. Third quarter revenues were impacted by field operational events, reversed in the fourth quarter, that reduced volumes by 30 barrels per day and an operator error in allocating production at Gunnel, B.C. that decreased volumes by 10 barrels per day.

While fourth quarter revenues were more than double third quarter totals, earnings were affected by the last of the Corporate revitalization costs, costs related to the absorption of American Leduc operations, as well as increased depletion expense from a change in the method of calculating year-end reserves and the acquisition of American Leduc which had a higher cost base in its properties.

Liquidity and Capital Resources

Veteran's capital structure is comprised of common shares and bank indebtedness. The Company carefully monitors its use of bank debt to supplement cash flow from operations, equity capital, joint venture financings and non-core property dispositions to fund capital activity. Total debt at the current year-end, including a working capital deficiency of $1,415,000, was $2,893,000, representing an amount slightly higher than fourth quarter 2003 cash flow annualized and less than one times estimated 2004 cash flow. The Company has access to a $6.3 million credit facility with a chartered Canadian Bank of which $4.8 million was available at December 31, 2003. The credit facility is subject to an annual review in May of each year and will be adjusted to reflect changes in the Company's reserve base. This facility along with cash flow from operations will support Veteran's 2004 exploration and development program. The Company intends to maintain debt at or below one times forward cash flow.

LIQUIDITY AND CAPITAL RESOURCES

	2003		2002	
Share capital	$ 28,591,000	95%	$ 14,694,000	84%
Bank loan	$ 1,478,000	5%	$ 2,825,000	16%
	$ 30,069,000	100%	$ 17,519,000	100%

CAPITALIZATION

As at December 31, 2003	At Cost		At Market	
Common share equity (closing share price December 31, 2003 – $0.90)	$ 28,591,000	90%	$ 52,067,000	94%
Working capital deficiency	$ 1,415,000	4%	$ 1,415,000	3%
Bank loan	$ 1,478,000	5%	$ 1,478,000	3%
Future site restoration	$ 281,000	1%	$ 281,000	–
Future income taxes	$ –	–	$ –	–
	$ 31,765,000	100%	$ 55,241,000	100%

CONTRACTUAL OBLIGATIONS

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Bank loan	$ 1,478,000	$ 1,478,000	$ –	$ –	$ –
Operating leases	$ 466,000	$ 260,000	$ 194,000	$ 12,000	$ –
	$ 1,944,000	$ 1,738,000	$ 194,000	$ 12,000	$ –

The Company has entered into operating leases covering office space with a term to August 31, 2005 and office equipment with varying terms as long as four years. There are no commitments to purchase at the end of any of the leases.

Related Party Transactions

On May 13, 2003, Veteran completed an acquisition of Grand River Energy Ltd., a private Alberta company that held rights to earn various interests in the Company's Ontario properties. The purchase price was $640,000, payable by the issuance of 1,600,000 shares of Veteran at $0.40 per share. An independent evaluation of the acquisition purchase price was provided, along with an independent fairness opinion, prior to closing this acquisition. The acquisition was considered to be a non-arms-length transaction since the president of Veteran was one of the shareholders of Grand River Energy Ltd.

Critical Accounting Estimates

There are a number of critical estimates underlying the accounting policies we apply when preparing the financial statements which we have discussed below.

Oil and gas accounting – reserves determination

Veteran follows the full cost method of accounting for its oil and gas activities, as described in Note 1 to the financial statements. Full cost accounting depends on the estimated reserves to be recovered from petroleum and natural gas properties. The process of estimating reserves is complex. It requires significant judgments based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. Reserve estimates are based on current production forecasts, prices and economic conditions. Reserve estimates are critical to many of our accounting estimates including:

- The completion of the Company's ceiling test, which limits the net book value of capital assets, net of future site restoration and income taxes, to the undiscounted and unescalated estimated future net revenues from production of proved reserves based upon prices, costs and regulations in effect at year-end. Additional depletion is provided if the net book value of capitalized costs exceeds such future net revenues. In 2003, the Company's estimated future net revenues exceeded the net book value of capitalized costs so no additional depletion was required.
- Calculating the unit of production depletion and asset retirement obligation rates. Proved reserve estimates are used to determine rates that are applied to each unit of production in calculating depletion and site restoration expense. In 2003, oil and gas depletion of $1,504,559 and site restoration costs of $124,489 were recorded in depletion, depreciation and site restoration expense.

As circumstances change and additional data becomes available, estimates of reserves also change, possibly materially affecting net income. Estimates made by independent engineers are reviewed and revised, either upward or downward, as warranted. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions. Reserves information is summarized in the Reserves section of the annual report.

Changes in Accounting Policies

In December 2002, the Canadian Institute of Chartered Accountants (CICA) approved section 3110, Asset Retirement Obligations which requires liability recognition for retirement obligations associated with the Company's oil and gas assets. These obligations are initially measured at fair value, which is the discounted future value of the liabilities. This fair value is capitalized as part of the cost of the related assets and amortized using the unit-of-production method. Section 3110 is effective for fiscal years beginning on or after January 1, 2004. The impact on our financial statements has not been determined at this time.

During the year, Veteran prospectively adopted the fair-value method of accounting for stock options granted to employees and directors. Stock-based compensation expense is recorded on the Statements of Earnings and Deficit as general and administrative expense for all options granted on or after January 1, 2003, with a corresponding increase recorded as contributed surplus. Compensation expense for options granted during 2003 is based on the estimated fair values at the time of the grant and the expense is recognized over the vesting period of the option. Compensation expense recorded for 2003 totalled $70,521. For options granted prior to January 1, 2003, the Company continues to disclose the pro forma earnings impact of related stock based compensation expense (see Note 6).

Outstanding Share Data

The following table summarizes Veteran's common share position as at the date of this MD&A. All common share options and warrants have been included, despite the fact that some of these options or warrants may be anti-dilutive, in that their exercise price is greater than the Company's current share trading price.

	Shares		Amount
Common shares outstanding at December 31, 2003	57,852,226	$	28,591,051
Issued to April 1, 2004 on exercise of agents' options and warrants	71,480	$	37,960
Common shares outstanding at April 1, 2004	57,923,706	$	28,629,011
Warrants exercisable up to December 30, 2005	6,049,500	$	2,217,750
Agents' options exercisable up to August 7, 2004	1,246,663	$	746,034
Employees' and directors' options exercisable up to March 29, 2009	2,684,000	$	1,629,800
Common shares at April 1, 2004	67,903,869	$	33,222,595

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the annual report. The financial statements have been prepared using generally accepted accounting principles including, where applicable, amounts based on management's best estimates. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from these estimates. Financial information elsewhere in this annual report is consistent with that in the financial statements.

Veteran maintains a system of internal controls designated to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial information is presented on a timely basis, is relevant and reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out its responsibility principally though its audit committee.

The audit committee, the majority being non-management directors, is appointed by the Board of Directors. The audit committee has reviewed Veteran's financial statements with Management and the Auditors and has recommended their approval by the Board of Directors.

Deloitte and Touche LLP, an independent firm of Chartered Accountants appointed by the shareholders, has examined the financial statements in accordance with generally accepted auditing standards and its report is included herein. Deloitte and Touche LLP has full and free access to the audit committee.

Philip Loudon
President & Chief Executive Officer

Peter Henry, C.A.
Vice President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Veteran Resources Inc.:

We have audited the balance sheets of Veteran Resources Inc. as at December 31, 2003 and 2002 and the statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Alberta
March 5, 2004

Deloitte & Touche LLP
Chartered Accountants

BALANCE SHEETS

As at December 31	2003	2002
ASSETS		
Current		
Cash	$ 330,231	$ –
Restricted cash (Note 1)	–	1,403,910
Accounts receivable	1,678,319	661,729
Prepaid expenses	175,166	145,293
	2,183,716	2,210,932
Capital assets (Notes 2 and 3)	25,075,220	11,641,578
	$ 27,258,936	$ 13,852,510
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 3,599,191	$ 1,652,515
Bank loan (Note 4)	1,478,000	2,825,000
Advances from directors, officers and shareholders (Note 5)	–	1,575,000
	5,077,191	6,052,515
Future site restoration	280,925	156,459
Contingencies and commitments (Notes 10 and 11)		
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	28,591,051	14,694,141
Contributed surplus (Notes 1 and 6)	70,521	–
Deficit	(6,760,752)	(7,050,605)
	21,900,820	7,643,536
	$ 27,258,936	$ 13,852,510

Approved by the Board

Ken S. Woolner
Chairman

Philip J. Loudon
Director

STATEMENTS OF EARNINGS AND DEFICIT

For the years ended December 31	2003	2002
REVENUES		
Oil and natural gas	$ 4,861,871	$ 2,187,125
Royalties, net of ARTC	(610,318)	(342,202)
	4,251,553	1,844,923
EXPENSES		
Production	974,061	513,913
General and administrative	1,229,914	625,946
Financing charges	81,029	85,138
Depletion, depreciation and site restoration	1,642,783	618,419
	3,927,787	1,843,416
Earnings before taxes	323,766	1,507
Capital taxes	33,913	–
Net earnings for the year	289,853	1,507
Deficit, beginning of year	(7,050,605)	(7,052,112)
Deficit, end of year	$ (6,760,752)	$ (7,050,605)
Earnings per common share (Note 6)		
Basic	$ 0.01	$ 0.00
Diluted	$ 0.01	$ 0.00

STATEMENTS OF CASH FLOWS

For the years ended December 31	2003	2002
OPERATING ACTIVITIES		
Net earnings for the year	$ 289,853	$ 1,507
Non-cash items		
Stock-based compensation	70,521	–
Depletion, depreciation and site restoration	1,642,783	618,419
Cash flow from operations	2,003,157	619,926
Changes in non-cash working capital	780,274	49,871
	2,783,431	669,797
FINANCING ACTIVITIES		
Bank loan	(1,972,000)	1,597,753
Proceeds on issuance of common shares	14,181,684	1,612,510
Costs on issuance of common shares	(924,774)	(213,989)
Advances from directors, officers and shareholders	(1,575,000)	1,575,000
	9,709,910	4,571,274
INVESTING ACTIVITIES		
Capital asset additions	(6,556,690)	(4,806,325)
Acquisition of American Leduc Petroleums Limited (Note 2)	(7,010,330)	–
Proceeds on disposal of capital assets	–	145,799
	(13,567,020)	(4,660,526)
Increase (decrease) in cash	(1,073,679)	580,545
Cash, beginning of year	1,403,910	823,365
Cash, end of year	$ 330,231	$ 1,403,910
Cash taxes	$ 1,246	$ –
Interest paid	$ 73,034	$ 85,138

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Management estimates and measurement uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

The amounts recorded for depletion and depreciation of capital assets and the provision for future site restoration are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, future costs, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty, and the impact of the difference between actual results and these estimates on the financial statements of future periods could be material.

Capital assets

a) Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas properties and equipment whereby all costs related to the exploration for and development of oil and gas reserves are capitalized. Costs include lease acquisition, geological and geophysical expenditures, carrying costs of non-productive properties, the drilling of productive and non-productive wells and related plant and production equipment costs.

Proceeds on disposal of properties are ordinarily deducted from such costs without recognition of profit or loss except where such disposal would change the rate of depletion by 20 percent or more.

b) Ceiling test

The Company calculates a "cost ceiling" which limits the net book value of capital assets, net of future site restoration and income taxes, to the undiscounted and unescalated estimated future net revenues from production of proved reserves based upon prices, costs and regulations in effect at year-end. Additional depletion is provided if the net book value of capitalized costs exceeds such future net revenues. This test also takes into account estimated future general and administrative expenses, site restorations and abandonments, financing costs and income taxes, all undiscounted and unescalated.

c) Depletion and depreciation

Depletion of petroleum and natural gas capital assets is provided using the unit-of-production method where the ratio of production to estimated proved reserves determines the proportion of depletable costs to be expensed. Depletable costs are reduced by the estimated future salvage values of equipment, plants and facilities, and undeveloped properties are excluded from the depletion calculation until the quantities of proved reserves relating to those properties can be determined. Undeveloped properties are reviewed at least annually for impairment.

Depreciation of office equipment is computed on the declining balance method at rates ranging from 10 percent to 30 percent per year.

d) Future site restoration costs

The provision for future site restoration costs relating to petroleum and natural gas properties is charged against income on a unit-of-production basis. Estimates are made by Management based on costs and regulations in effect at year-end. The accumulated provision is reflected as a long-term liability and is reduced by expenditures incurred.

Flow-through shares

The Company has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of these flow-through share issuances, the tax attributes of the related expenditures are renounced to subscribers. Share capital is reduced, and future income taxes are increased, by the estimated income tax benefits renounced by the Company to subscribers when the qualifying expenditures have occurred. As the Company has a future potential income tax asset that exceeds the future tax liability that results on the occurrence of qualifying capital expenditures, no future tax liability has been recorded. Restricted cash in 2002 represented proceeds from flow-through share offerings which had not been spent on qualifying expenditures as at December 31, 2002 (see Note 11).

Income taxes

The Company follows the liability method of accounting for income taxes.

The Company has a future potential income tax asset resulting primarily from the tax basis of petroleum and natural gas properties exceeding the accounting net book value. However, a tax asset is only recognized if it is more likely than not to be realized. Accordingly, no future tax benefit has been recorded.

Joint ventures

A significant portion of the Company's exploration, development and production activities are conducted jointly with other entities and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

Revenue recognition

Revenues from the sale of oil and natural gas are recognized when title passes to the customer.

Per share information

Per share information is calculated using the treasury stock method and is based on the weighted average number of shares outstanding during the period.

Stock-based compensation

The fair value of stock options is estimated, on the grant date, using the Black-Scholes option pricing model with the assumptions described in Note 6. For options granted prior to January 1, 2003, the Company uses the intrinsic value based method and recognizes no compensation expense. For options granted after January 1, 2003, we use the fair-value based method and expense them over the vesting period.

Changes in Accounting Principles

Stock-based compensation

During the year, Veteran prospectively adopted the fair-value method of accounting for stock options granted to employees and directors. Stock-based compensation expense is recorded on the Statements of Earnings and Deficit as general and administrative expense for all options granted on or after January 1, 2003, with a corresponding increase recorded as contributed surplus. Compensation expense for options granted during 2003 is based on the estimated fair values at the time of the grant and the expense is recognized over the vesting period of the option. Compensation expense recorded for 2003 totalled $70,521. For options granted prior to January 1, 2003, the Company continues to disclose the pro forma earnings impact of related stock-based compensation expense (see Note 6).

2. ACQUISITION

Effective October 17, 2003, the Company acquired all of the issued and outstanding shares of American Leduc Petroleums Limited ("American Leduc") under a plan of arrangement approved by American Leduc's shareholders. The shares were purchased for cash consideration of $0.23 per share totalling $6,745,347. American Leduc was immediately dissolved and wound up into Veteran.

The transaction was accounted for by the purchase method and the purchase price was allocated as follows:

Assets acquired:	
Current assets	$ 923,293
Capital assets	7,755,269
Current liabilities	(1,043,232)
Bank loan	(625,000)
	$ 7,010,330

Funded by:	
Cash	$ 6,745,347
Costs of the acquisition	264,983
	$ 7,010,330

The financial statements include the results of operations of American Leduc from the date of the acquisition, October 17, 2003.

3. CAPITAL ASSETS

	2003		
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $
Petroleum and natural gas properties	35,366,932	10,430,807	24,936,125
Office equipment	211,091	71,996	139,095
	35,578,023	10,502,803	25,075,220

	2002		
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $
Petroleum and natural gas properties	20,472,567	8,878,099	11,594,468
Office equipment	153,519	106,409	47,110
	20,626,086	8,984,508	11,641,578

At December 31, 2003, petroleum and natural gas properties include approximately $4,800,000 (2002 – $2,600,000) relating to unproved properties that have been excluded from the depletion calculation. General and administrative expenses of $421,602 (2002 – $493,112) were capitalized. Interest expense is not capitalized.

4. BANK LOAN

The Company has a revolving operating demand loan facility in the authorized amount of $6,300,000 to finance operating requirements, bearing interest at prime plus 0.5 percent. At December 31, 2003, $1,478,000 was drawn under this facility. The Company also has a non-revolving acquisition demand loan facility in the authorized amount of $1,000,000 to finance the acquisition of producing petroleum and natural gas reserves, bearing interest at prime plus 1 percent. At December 31, 2003, this facility was not drawn upon.

The facilities are secured by a floating charge over all the assets of the Company, and are subject to periodic review by the lender. The next review is scheduled to be completed by March 31, 2004. While all obligations to the lender are repayable on demand at any time, the availability of the facilities is subject (a) to a number of covenants, including the requirement to maintain a specified working capital ratio, and (b) to a number of events of default, including the failure to comply with a covenant and a material adverse change in the financial condition of the Company, as determined by the lender. At December 31, 2003, the Company was in compliance with the working capital ratio covenant described above.

5. ADVANCES FROM DIRECTORS, OFFICERS AND SHAREHOLDERS

In November 2002, directors, officers and shareholders advanced $1,575,000 to the Company, of which $1,425,000 was advanced by directors and officers. These advances bore interest at 8.358 percent per annum and were repaid together with related interest of $19,000 (included in accounts payable at December 31, 2002) in January 2003.

6. SHARE CAPITAL

Authorized

Unlimited number of common shares without nominal or par value

Unlimited number of redeemable preferred shares

Issued

Common shares

	Number	Amount $
Balance, common shares - December 31, 2001	28,899,620	13,295,620
Flow-through shares issued for cash	3,119,800	1,403,910
Shares issued for cash	521,500	208,600
Issue costs		(247,012)
Balance, common shares - December 31, 2002	32,540,920	14,661,118
Issued		
Non-employee options/warrants		33,023
Balance, share capital – December 31, 2002		14,694,141
Shares issued for cash	12,252,000	6,304,425
Flow-through shares issued for cash	10,595,836	7,442,877
Shares issued on corporate acquisition (Note 9)	1,600,000	640,000
Issued for cash on exercise of stock options	464,200	254,710
Issued for cash on exercise of agent's options	399,270	179,672
Non-employee options/warrants		137,188
Issue costs		(1,061,962)
Balance, share capital – December 31, 2003	57,852,226	28,591,051

Reconciliation of earnings per share calculations

	Year Ended December 31, 2003			Year Ended December 31, 2002		
	Net Earnings $	Weighted Average Shares Outstanding	Per Share $	Net Earnings $	Weighted Average Shares Outstanding	Per Share $
Basic	289,853	43,885,304	0.01	1,507	28,908,510	0.00
Options and warrants assumed exercised		7,418,350			829,070	
Shares assumed purchased		(5,147,422)			(753,843)	
Diluted	289,853	46,156,232	0.01	1,507	28,983,737	0.00

Stock options, agent options and warrants

Stock options have been granted to directors, officers, employees and key consultants entitling them to purchase common shares of the Company. A summary of these options outstanding at December 31, 2003 and 2002 and the changes during the years then ended is presented below:

Employees', directors' and key consultants' stock options

	Stock Options	Weighted Average Price ($)
Balance – December 31, 2001	1,766,200	0.81
Granted	399,000	0.59
Balance - December 31, 2002	2,165,200	0.77
Granted	1,553,000	0.50
Exercised	(464,200)	0.55
Cancelled	(348,000)	1.26
Expired, unexercised	(420,000)	0.55
Balance - December 31, 2003	2,486,000	0.62

Price $	Outstanding December 31, 2003	Weighted Average Life Remaining	Weighted Average Price ($)	Exercisable December 31, 2003	Weighted Average Price ($)
0.70	100,000	1.5 years	0.70	100,000	0.70
1.01	450,000	1.1 years	1.01	450,000	1.01
0.40	83,000	3.1 years	0.40	75,000	0.40
0.65	300,000	3.4 years	0.65	300,000	0.65
0.35	965,000	4.3 years	0.35	–	–
0.70	300,000	4.9 years	0.70	–	–
0.80	168,000	5.0 years	0.80	–	–
0.84	120,000	5.0 years	0.84	–	–
	2,486,000	3.6 years	0.62	925,000	0.81

The Company has 7,295,800 shares reserved for stock options as at December 31, 2003 for issuance under the Stock Option Plan.

Agents' options

	Number Outstanding	Weighted Average Price ($)
Balance – December 31, 2001	365,940	0.45
Granted	364,130	0.44
Exercised	–	–
Balance – December 31, 2002	730,070	0.42
Granted	931,943	0.65
Exercised	(399,270)	0.45
Balance – December 31, 2003	1,262,743	0.60

Price $	Outstanding December 31, 2003	Weighted Average Life Remaining	Weighted Average Price ($)	Exercisable December 31, 2003	Weighted Average Price ($)
0.65	382,050	0.4 years	0.65	382,050	0.65
0.75	400,243	0.4 years	0.75	400,243	0.75
0.45	278,650	0.5 years	0.45	278,650	0.45
0.40	201,800	0.6 years	0.40	201,800	0.40
	1,262,743	0.5 years	0.60	1,262,743	0.60

Warrants	Number	Weighted Average Exercise Price ($)
Balance – December 31, 2002	286,825	0.50
Granted	5,818,075	0.44
Exercised	–	–
Balance – December 31, 2003	6,104,900	0.45

Price $	Outstanding December 31, 2003	Weighted Average Life Remaining	Weighted Average Price ($)	Exercisable December 31, 2003	Weighted Average Price ($)
0.50	1,109,900	0.6 years	0.50	1,109,900	0.50
0.40	3,520,000	1.3 years	0.40	3,520,000	0.40
0.45	1,260,000	1.3 years	0.45	1,260,000	0.45
0.90	215,000	2.0 years	0.90	215,000	0.90
	6,104,900	1.2 years	0.45	6,104,900	0.45

Estimated fair value of stock options

The fair value of stock options has been estimated using the Black-Scholes option pricing model under the following assumptions:

	2003	2002
Weighted average fair value ($/option)	0.23	0.34
Risk-free interest rate (%)	4.01	4.95
Expected hold period prior to exercise (years)	4.24	5
Volatility in the market price of Veteran's common shares (%)	52	65
Dividends per common share ($/share)	–	–

Pro forma net income – fair value method of accounting for stock options

The following table depicts pro forma net earnings (loss) and earnings (loss) per common share had Veteran applied the fair-value method to account for all stock options that were granted up to December 31, 2002. Stock options granted after that date have been expensed as general and administrative costs.

	2003 $	2002 $
Fair value of stock options granted	73,074	131,428
Less: Fair value of stock options expensed	(70,521)	–
	2,553	131,428
Net earnings (loss)		
As reported	289,853	1,507
Pro forma	287,300	(129,921)
Net earnings (loss) per common share		
Basic		
As reported	0.01	–
Pro forma	0.01	–
Diluted		
As reported	0.01	–
Pro forma	0.01	–

7. INCOME TAXES

The provision for income taxes reflects an effective tax rate which differs from the expected Canadian income tax rate of 40.75 percent (2002 – 42.25 percent) as summarized below:

	2003 $	2002 $
Expected income tax expense	131,918	637
Non-deductible crown charges	172,650	129,049
Deductible resource allowance	(211,657)	(42,424)
Resource allowance rate reduction	40,256	–
Share issue costs	(93,052)	–
ARTC	(22,817)	–
Other	(17,298)	(87,262)
Income tax provision	–	–

The Company has an excess of accumulated income tax deductions over the net book value of capital assets. These income tax deductions are available to reduce future taxable income.

In addition, the Company has scientific research expenditures and tax credits. The scientific expenditures may be used to reduce future taxable income and will begin to expire in the year 2004. The tax credits may be used to reduce future taxes payable and will expire in the year 2009.

The potential future benefit of income tax deductions has not been recognized as an asset in these financial statements. The future income tax asset is comprised of temporary differences related to:

	2003 $	2002 $
Property and equipment	(76,000)	1,622,000
Scientific Research and Experimental Development expenditures	977,000	1,014,000
Share issue costs	378,000	192,000
Potential future income tax asset	1,279,000	2,828,000
Valuation allowance	(1,279,000)	(2,828,000)
Future tax asset	–	–

8. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The nature of oil and gas operations and the issuance of debt expose the Company to fluctuations in commodity prices and interest rates. In addition, a substantial portion of the Company's accounts receivable are with customers and joint venture participants in the oil and gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects Management's assessment of the credit risk associated with these customers and participants.

Financial instruments recognized on the balance sheet consist of cash, accounts receivable, accounts payable and the bank loan. The fair value of these financial instruments at December 31, 2003 and 2002 approximates their carrying value due to the short-term maturity of these instruments.

9. RELATED PARTY TRANSACTION

On May 13, 2003, Veteran completed the acquisition of Grand River Energy Ltd., a private Alberta company that held rights to earn various interests in the Company's Ontario properties. The purchase price of $640,000, payable by the issuance of 1,600,000 shares of Veteran at $0.40 per share, was allocated to petroleum and natural gas properties. The 1,600,000 shares were held in escrow until an amount of not less than $5,000,000 in funding was raised from July 1, 2002. The required funds were raised and the shares were released from escrow on June 9, 2003. An independent evaluation of the acquisition purchase price was provided, along with an independent fairness opinion, prior to closing this acquisition.

The acquisition was considered to be a non-arms length transaction, since the president of Veteran was one of the shareholders of Grand River Energy Ltd.

10. CONTINGENCIES

On October 17, 2003,the Company completed the acquisition of American Leduc Petroleums Limited for cash consideration of $0.23 per share totalling $6,745,347. The acquisition was completed under a plan of arrangement which contains provisions for the return to Veteran of any cash related to shares not tendered to the offer within two years of the closing date. Any cash returned to the Company as at October 17, 2005 would result in a reduction to capital assets at that time. At March 5, 2004, there were 3,407,578 shares representing $783,743 that had not, as yet, tendered to the offer.

At December 31, 2003, the Company had an outstanding letter of credit for site restoration guarantees in the amount of $72,000.

11. COMMITMENTS

During 2003, the Company funded a portion of its capital activities through the issue of approximately $7.4 million of flow-through shares. Under the terms of the 2003 share issues, the tax attributes of the related expenditures must be renounced to subscribers by December 31, 2004. As at December 31, 2003, approximately $5.1 million of qualifying capital expenditures remained to be incurred and renounced. Management intends to finance these capital expenditures, and the working capital deficiency, through a combination of debt and/or equity financing and cash flow from operations.

The Company has committed the following payments related to its office lease:

Year	Payments
2004	$ 249,000
2005	$ 170,000
	$ 419,000

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

SUPPLEMENTARY INFORMATION

Quarterly Summary

FINANCIAL (unaudited)	2003				2002			
($ except for common shares outstanding)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas revenues	1,632,422	802,863	1,102,848	1,323,738	911,803	475,022	422,030	378,270
Cash flow from operations	665,289	353,277	353,535	631,057	409,438	57,669	66,793	86,026
Per common share - basic	0.01	0.01	0.01	0.02	0.01	–	0.01	–
Per common share - diluted	0.01	0.01	0.01	0.01	0.01	–	0.01	–
Net earnings	(293,330)	128,904	77,800	376,480	219,249	(165,196)	(39,839)	(12,707)
Per common share - basic	(0.01)	0.01	–	0.01	–	(0.01)	–	–
Per common share - diluted	(0.01)	0.01	–	0.01	–	(0.01)	–	–
Capital expenditures, net	10,448,247	573,662	2,457,431	727,680	3,803,300	810,916	(69,133)	115,443
Total debt (working capital)	2,893,475	(1,759,999)	(1,742,483)	3,403,755	3,841,583	1,845,341	1,092,070	1,227,997
Shareholders' equity	21,900,820	16,249,205	15,882,422	8,554,466	7,643,536	6,026,711	6,191,908	7,643,536
Common shares outstanding								
Basic	57,852,226	48,737,886	48,277,686	34,037,420	32,540,920	28,899,620	28,899,620	28,899,620
Weighted average	53,353,233	48,452,762	39,946,505	33,536,137	28,908,510	28,899,620	28,899,620	28,899,620

OPERATIONS	2003				2002			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Average daily production								
Natural gas (mcf per day)	1,490	836	1,099	1,060	1,077	614	490	508
Crude oil and NGLs (bbl per day)	243	100	112	110	94	70	74	79
Barrels of oil equivalent (boe per day)	491	239	295	286	274	172	155	164
Average sales price								
Natural gas – net of transportation (per mcf)	5.37	5.82	7.07	8.88	5.72	3.45	3.90	3.70
Crude oil (per bbl)	40.18	40.30	39.13	48.84	41.53	41.16	38.15	30.48

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REGISTRAR AND TRANSFER AGENT

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ABBREVIATIONS

APO	after payout
ARTC	Alberta Royalty Tax Credit
bbls	barrels
bbl/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent
BPO	before payout
GORR	gross overriding royalty
mbbl	thousands of barrels
mboe	thousands of barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbtu	million British Thermal Units
mmcf	million cubic feet
NGLs	natural gas liquids
psi	pounds per square inch
psia	pounds per square inch absolute

CONVERSION

All calculations converting natural gas to crude oil equivalent have been made using an industry accepted ratio of six thousand cubic feet of natural gas to one barrel of crude oil.

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